

## **Summary of Results Briefing for the Q2 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: Aug 5, 2021 4:00 PM (JST)

Number of Speakers: 3

Norimasa Kitazawa	President and CEO
Eiji Akamatsu	Director, Senior Managing Executive Officer, Head of Japan Operations
Tadashi Itakura	Director, Senior Managing Executive Officer, Head of Global Office

## Presentation

### 618 Shopping Festival (China)

- Achieved sales comparable to the previous year, which were boosted by the flood of post-Covid-19 purchases (revenge consumption) **(138% compared to 2019)**.
- **Nursing bottles and skincare products ranked as No. 1** by category in JD.com.
- Ranked in the top 10 for overall baby & mother products at both T-mall and JD.com. (See the figure on the right.)

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**Kitazawa:** Hello, everyone. Thank you again for participating in this event as COVID-19 infections spread. First of all, I would like to introduce 2 topics of the first half of the year.

First, the China business. At the 618 Shopping Festival in China, our sales were almost the same as in the previous year. This is because last year's sales included 'revenge consumption,' so even if this year's result was on par with the previous year's sales, it was not a bad result.

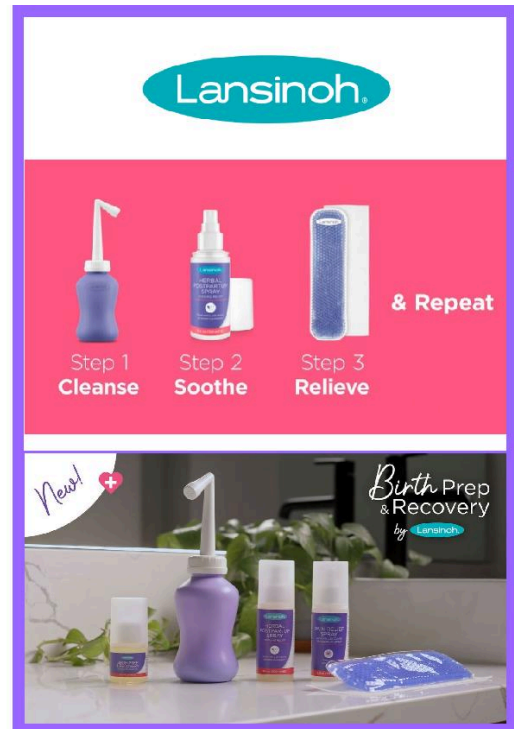
They were 138% vs the result in 2019, far from being bad.

In addition, in Jingdong's sales rankings by product category, our nursing bottles and skincare products were ranked first, respectively, with the rankings unchanged from last year and the year before last. In addition, we continue to be ranked in the top ten for overall baby and mother care products among the total of Taobao and Jingdong. We believe that Pigeon remains highly competitive and holds a high market share. However, as you can see from the rankings, compared to last year, there has been a change in the names of the manufacturers, which also shows a change in the market environment in China.

## Launched a New Category (Lansinoh)

- Launched pre- and post-partum care products in June.
- Focuses on sensitive care products such postpartum wash bottles, pain relievers, and hot & cold postpartum therapy packs.
- Started selling in the U.S., Germany and China. **Creating markets by expanding the number of products and the marketing areas.**

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This shows the Lansinoh business.

In June, Lansinoh launched its first line of new products in a long time, the products for prenatal and postnatal care. Since they were released in June, there has been only a small number of items, but the response from retailers has been very positive. In Germany, in particular, sales have been performing very well.

Lansinoh plans to increase the number of new products during this year to next year, so we have high expectations for them.

## Results – Consolidated PL (under New Standard)

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

(Unit: Million JPY)	Q2 / Dec. 2020		Q2 / Dec. 2021		
	Actual	% of Total	Actual	% of Total	YoY Change
<b>Net Sales</b>	45,902	100.0%	47,277	100.0%	103.0%
<b>Cost of Sales</b>	24,021	52.3%	24,719	52.3%	102.9%
<b>Gross Profit</b>	21,881	47.7%	22,558	47.7%	103.1%
<b>SG&amp;A Expenses</b>	13,971	30.4%	14,969	31.7%	107.1%
<b>Operating Income</b>	7,909	17.2%	7,589	16.1%	95.9%
<b>Ordinary Income</b>	8,532	18.6%	8,536	18.1%	100.0%
<b>Net Income Attributable to Owners of Parent</b>	5,855	12.8%	5,085	10.8%	86.8%

[Currency Rates]

Dec. 2021 Results: US\$1 = JPY 107.76 / CNY 1 = JPY 16.65

Dec. 2020 Results: US\$1 = JPY 108.26 / CNY 1 = JPY 15.39

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Next, I will report on the business results for the first half of the current year.

To put it simply, sales were 103% of the year-before result. Operating income was 95.9% of the year-before level. Compared with the plan, sales were slightly lower than planned, while operating income was almost in line with the plan.

## Results – by Business Segment (under New Standard)

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

(Unit: Million JPY)	Q2 / Dec. 2020				Q2 / Dec. 2021				
	Actual	% of Ttl	Gross Margin	Segment Profit	Actual	% of Ttl	YoY Change	Gross Margin	Segment Profit
<b>Consolidated Net Sales</b>	<b>45,902</b>	<b>100.0%</b>	<b>47.7%</b>	<b>7,909</b>	<b>47,277</b>	<b>100.0%</b>	<b>103.0%</b>	<b>47.7%</b>	<b>7,589</b>
Japan Business	20,698	45.1%	33.9%	1,458	19,888	42.1%	96.1%	34.4%	1,172
China Business	16,814	36.6%	52.8%	6,118	19,440	41.1%	115.6%	52.0%	6,766
Singapore Business	6,443	14.0%	39.8%	1,257	6,024	12.7%	93.5%	36.9%	807
Lansinoh Business	6,312	13.8%	56.6%	907	6,231	13.2%	98.7%	55.1%	522
Elimination of inter-segment transactions	(4,364)	(9.5%)	—		(4,306)	(9.1%)	—	—	

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Next are the results by business unit. As the company has changed its accounting standards from the current year, the previous year's results here are based on a re-calculation using the same accounting standards as the current year.

The Japan business was 96.1% of the prior-year level. The China business grew, posting 115.6% of the year-before level. The Singapore business was 93.5%. The Lansinoh business was 98.7%.

## Summary of Results by Business Segment (Q2 YTD)

\* Sell-In (Local Currency)

Japan  
Business**Net sales declined mainly due to the spread of COVID-19 and easing special demand driven by the pandemic**

- Sales in Domestic Baby and Mother Care Business declined year on year as special demand for consumables driven by the pandemic eased and demand from inbound travelers vanished.
- Health and Elder Care Business experienced year-on-year sales decline because of the streamlining some unprofitable products.
- Sales of the skincare products, baby dental care products and baby foods increased from the same quarter in the previous fiscal year.
- Among new products, the newly-designed nursing bottles and electric toothbrushes are sold well.
- Gross margin improved by +0.5 points due to a decrease in the composition of consumables.
- Sales promotion expenses rose in response to the aggressive sales promotion of new baby stroller including NautR.

China  
Business**Net sales in mainland China\* increased year on year driven by nursing bottles and skincare products**

- Net sales in mainland China\* increased significantly by 10% year on year driven by sales increases of nursing bottles and skincare products by 5% and 39% from the same quarter in the previous fiscal year, respectively.
- E-commerce sales accounts for 65% of total sales, up 1.0 points from the same quarter in the previous fiscal year.
- Pigeon's nursing bottles keep the largest market share.
- New products such as limited design edition of nursing bottle, avocado skincare products, and hot-spring skincare products show robust sales.
- Gross margin decreased 0.8 points due to a change in product mix.
- Expenses rose owing to increases in R&D costs to strengthen R&D and *monozurkuri* (manufacturing), as well as in logistics costs in line with the sales growth through major EC platforms.

Next, I would like to explain each of the business units. For those businesses where sales have fallen below the previous year's level, the reasons for this are very clear, and the measures to be taken are also clear.

First of all, as for the main reason for the decline in revenue here is domestic babies and mother care business. There was still inbound demand for about 1 month and a half at the beginning of last year, so the hurdle was high. In addition, in the first half of last year, there was a large amount of sales from special demand related to COVID-19, such as for disinfection, thermometers, and wipes. So these were the factors behind the YoY decrease this year.

Sales of baby skincare, baby oral dental care, and baby food increased YoY.

As for new products, sales of nursing bottles with new designs and electric toothbrushes were strong. There was also an electric nasal aspirator that was released last year, although it is very expensive at around JPY15,000. I think it is very encouraging that these high-priced products have started to grow steadily.

The gross profit margin improved by 0.5 point due to a decrease in the overall composition of consumables.

For SG&A, sales promotion expenses increased due to a strengthened promotion campaigns for a new stroller model, the NautR, and other products.

In the health and elder care business, as we explained in the 7<sup>th</sup> mid-term plan, we have been reviewing the product portfolio. This has contributed to an improvement in the gross margin of the Japan business as a whole, with a higher proportion of sales coming from higher-margin in-house products.

Next, in China, sales in mainland China alone grew to 110% of the prior-year level on a local currency basis, representing double-digit growth.

By product category, sales of nursing bottles were 105% and those of skincare products grew significantly to 139%. The ecommerce ratio increased by 1 pt YoY to 65%. New products, such as nursing bottles of limited design editions, avocado-based skincare products, which is exclusive to the offline channel and hot spring-based skincare products, performed well.

The gross profit margin decreased by 0.8 pt due to changes in the product mix.

In addition, as is the case with the entire Group at the moment, we are trying to use R&D expenses as aggressively as possible, so SG&A expenses increased.

## Summary of Results by Business Segment (Q2 YTD)

\* Sell-In (Local Currency)

Singapore Business	<p><b>Net sales plunged amid the resurgence of COVID-19 cases in Southeast Asia</b></p> <ul style="list-style-type: none"> <li>• The resurgence of COVID-19 cases and the periodic lockdown in each country restricted business activity significantly.</li> <li>• Delayed shipment due to the effect of the spread of COVID-19 and shortage of container muddled the businesses in the Middle East and Indonesia.</li> </ul> <p>Meanwhile, net sales in India grew 37% year on year partly due to strong EC sales, while Malaysia also showed an increase in net sales by 34% owing to the higher number of stores for distribution and resilient EC business.</p> <ul style="list-style-type: none"> <li>• Newly launched products include Disney design nursing bottles and new lineup of skincare products.</li> <li>• Loss of demand from inbound travelers to Japan dampened the utilization of the factory in Thailand, leading to a decrease in gross margin by 2.9 points.</li> <li>• Aggressive marketing promotion despite the pandemic put upward pressure on the advertisement and sales promotion expenses.</li> </ul>
Lansinoh Business	<p><b>Disruption in global logistics reduced net sales, affecting profit significantly</b></p> <ul style="list-style-type: none"> <li>• Net sales in North America* declined 2% year on year partly due to delayed shipment for the reason of the buyer.</li> <li>• Europe, especially Germany increased net sales by 18% year on year, driven by strong sales in both existing and new products through EC and offline sales channels. Businesses in the Benelux countries grew 33% year on year thanks to a strong sales via pharmacies and EC.</li> <li>• Pre- and postpartum care products were launched in June.</li> <li>• Escalating logistics costs offsetting an improvement of sales mix, gross margin shrunk by 1.6 points.</li> <li>• SG&amp;A expenses rose owing to an increase in sales promotion expenses and expenses for strengthening R&amp;D and <i>monozurkuri</i> (manufacturing).</li> </ul>

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Next is the Singapore business.

Needless to say, lockdowns in various countries have affected sales and manufacturing in the region.

In particular, I think we can say that the lockdowns in India, Malaysia, and Indonesia had a considerable impact on our performance. In addition, delays in shipments due to container shortages have occurred in various regions of the world.

On the other hand, it was difficult to sell our products through our existing offline channels in India, but sales through ecommerce grew sharply and overall sales increased to 137% of the year-before level. Malaysia was also in a similar situation, and sales grew to 134% by expansion of ecommerce.

As for gross margin, especially production at our Thai plant declined due to the decrease in inbound demand in Japan. As a result, the gross profit margin of the Singapore business declined by about 2.9 pt.

In addition, although it was amid the COVID-19 pandemic, we were actively spending necessary sales promotion expenses, so there was an increase in advertising and promotion expenses.

The Lansinoh business. Main reason for decline is in North America, this is due to the impact of backlogs caused by buyers' circumstances, although orders were not affected. The impact on sales is in the order of several hundred million yen. By region, Germany and Benelux have been performing well.

As I explained earlier, Lansinoh has started selling the new product for prenatal and postpartum care and sales have been doing very well.

Also, the Lansinoh business division tends to spend a lot on development, so that part of SG&A expenses increased.



## New Products in China Launched Several Unique Series in Chinese Market, Getting Off to a Flying Start

### Avocado skincare

Limited edition offered through the offline channel



### Yuzu (a kind of citrus fruit) skincare (starting from June 2021)

Upgraded basic lineup to more attractive products



### Hot-spring (Onsen) skincare

(starting from June 2021)

First launched made-in-Japan skincare product in Chinese markets (manufactured in Fuji factory)



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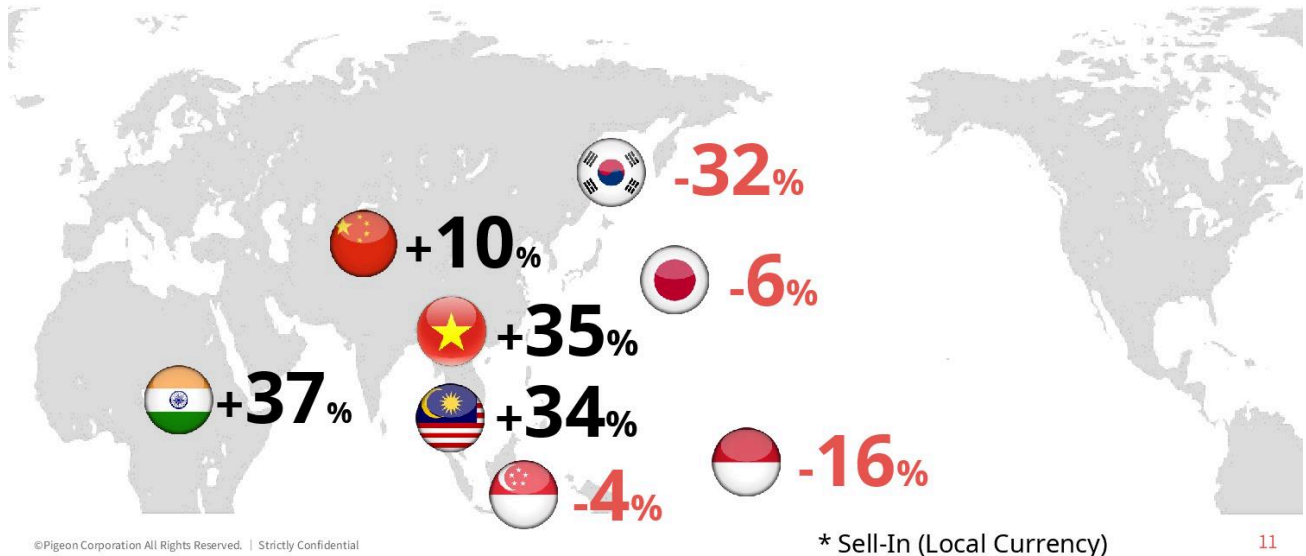
In China, skincare product sales were performing very well, 139% YoY. The reason for the strong performance was in new products.

An avocado-based skincare series is an offline-only skincare product. According to the prospect at the moment, we may be able to see a new million sales by the end of this year.

Then there is a hot spring-based skincare series made by our Fuji factory in Japan. We just announced the product in June, so we are yet to see a large quantity of shipment. This is a very high-end product with an average price of JPY2,000 a unit. We have very high expectations of the product.

Other new products include the Yuzu citrus-based skincare series that we announced in June. This has been very pleased with the response and we expect it to contribute greatly to sales growth in the second half of the current year.

## Pigeon Sales by Regions\* (Q2 YTD / YoY) (under Previous Standard)

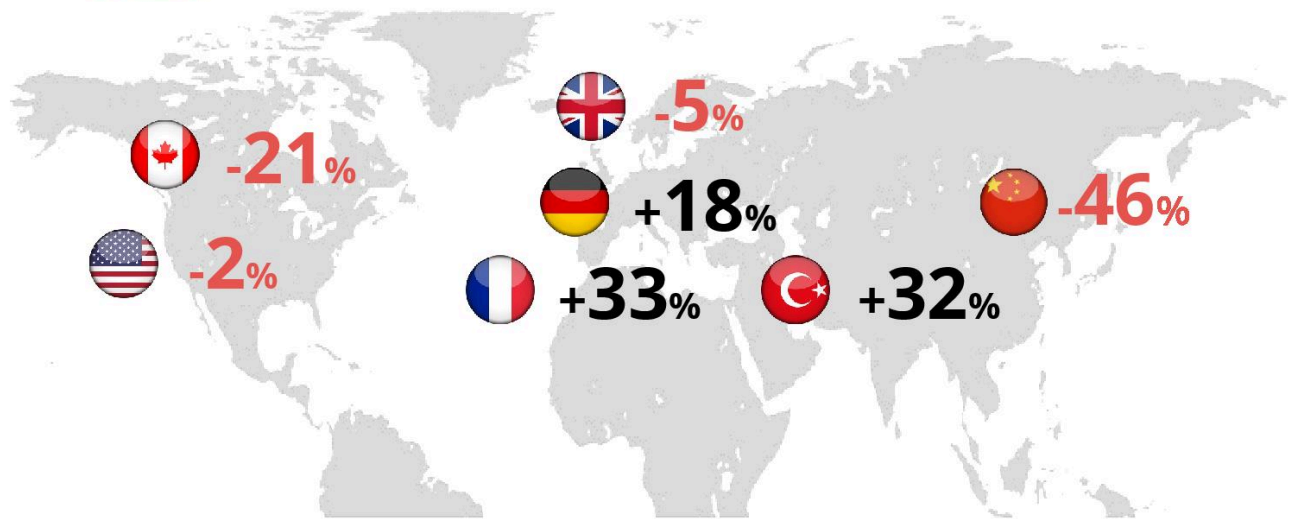


This shows sales by region of Pigeon Brand based on local currency.

First of all, China grew 10%, India 37%, and Malaysia 34% YoY. The biggest dip was shown in Indonesia, which was directly affected by COVID-19. The situation contrasts with the year-before period, when there was not so serious impact from the pandemic.

In addition, the top figure for South Korea was down 32%, but this was partly due to the balance of inventory. In fact, since sell-out figures from distributors have grown 3% to 4%, I believe that sales will be able to fully recover by the end of the year.

## Lansinoh Sales by Regions\* (Q2 YTD / YoY) (under Previous Standard)



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\* Sell-In (Local Currency)

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Next are sales by region of Lansinoh based on local currency. In Germany, France, and Turkey, sales grew very strongly.

The 46% decline in China. Lansinoh China has a high proportion of consumables sales, and intensifying competition from local brands has been a major factor in the decline in sales.

The 2% decline in the US is actually due to the backlog of orders for the buyer's convenience. If we assume that there had been no such backlog of orders, sales would have grown around 3%. I believe that this will eventually recover.

## Consolidated Balance Sheet (Highlight) (under New Standard)

(Unit: Million JPY)	End of Dec. 2020	Q2 / Dec. 2021		
	Actual	Actual	YoY Change	YoY Change (%)
<b>Cash and deposits</b>	37,163	35,348	(1,815)	95.1%
<b>Notes and accounts receivable - trade</b>	15,085	16,713	1,627	110.8%
<b>Inventories</b>	11,376	13,306	1,930	117.0%
<b>Notes and accounts payable - trade</b>	4,757	5,383	625	113.2%
<b>Electronically recorded obligations - operating</b>	1,670	1,749	78	104.7%
<b>Borrowings</b>	—	—	—	—
<b>Net assets</b>	72,625	75,769	3,143	104.3%
<b>Total assets</b>	93,472	97,152	3,680	103.9%
<b>Equity ratio</b>	74.8%	75.1%	—	+0.3Pt

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Next is the balance sheet.

Cash and deposits decreased by JPY1.8 billion from the end of the previous year. Inventories increased by about JPY1.9 billion. I think the cash balance will improve as inventories decrease due to sales recovery.

## Position Nursing Bottles and Skincare as “Top Priority Categories”

### Nursing Bottles

Evolve the research on infant feeding and create innovations in technological fields to further increase competitive advantage, thereby making Nursing Bottles grow into a much stronger category.



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- Nursing bottles are the origin of Pigeon and the core of its brands.
- Nursing bottles have made the largest contributions to net sales and gross profit.
- Pigeon has accumulated knowledge and increased its competitive advantage through research over 60 years.
- Pigeon holds the largest market shares in Japan and China.
- Pigeon is making its own unique contribution to society by placing support for breastfeeding at the core.

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At our company, next year, we will have to start formulating the next Mid-term Business Plan. In this context, I would like to talk about the major directions today.

Particularly in China, we will launch new nursing bottles and nipples around September. In Japan the launch will be around next April. I believe that the launch in Southeast Asia will start in July next year. We focus on nursing bottles and skincare products as the most important categories for the future and invest resources in them.

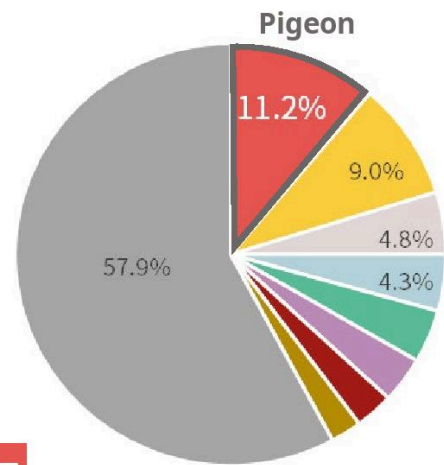
In the case of our company, nursing bottles were originally our founding product, and we have a long history of research and development, so we have a strong competitive advantage. This category is also highly profitable and makes the highest contribution to the Group's total gross margin, so we believe that by strengthening them, we will be able to improve our overall profit margin. In addition, since they have very strong brand power, I believe it is easy to sell them.

## Position Nursing Bottles and Skincare as “Top Priority Categories”

Pigeon’s current market share\*

# 11.2%

(No. 1 global market share)



**Aim for a market share of 15% by 2025**

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\*Source: Global Baby Bottles Market 2021 Report

Pigeon's share of the global market for nursing bottles and nipples is currently about 11.2%. We would like to increase this to 15% by 2025, the final year for the next Mid-term Business Plan.

## Position Nursing Bottles and Skincare as “Top Priority Categories”

### Baby Skincare

With even greater market potential than nursing bottles, seek to grow with products that can differentiate Pigeon from competitors by leveraging knowledge cultivated through research on baby’s skin.



- The global baby skincare market is on a growing trend. The Chinese market, the largest market in the world, is said to continue to grow by double digits.\*
- Baby Skincare has made the second largest contributions to net sales and gross profit, following nursing bottles.
- Pigeon can exert its competitive advantage in the research on baby’s skin.
- The global market share of baby skincare products is lower than that of nursing bottles, which means there is a greater growth opportunity.
- Specific targets are under development toward the formulation of the next Medium Term Business Plan.

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\*Source: research by Pigeon 17

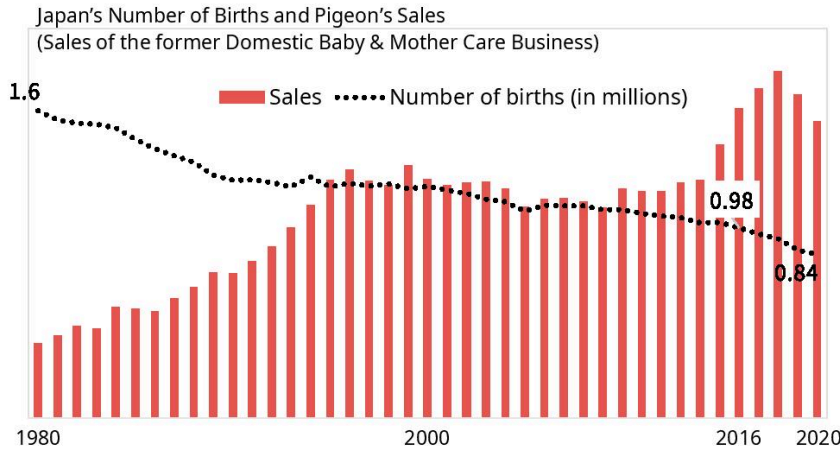
Next, the second most important category is skincare.

As I just introduced, we achieved sharp growth in China by concentrating a number of new products. The global skincare market is said to be much larger than that for nursing bottles and nipples. I hope that by aggressively developing this area, we will be able to increase our company’s performance.

In addition, our strength in skincare is our development. Factories in China and Fuji(Japan), have been proceeding with research and development on their own. At the Fuji factory in Japan, they have made considerable progress in R&D, so I believe that they will be able to come up with quite unique products in the next 2 to 3 years in Japan Business. We will disclose specific figures when we announce the next Mid-term Business Plan.

## [Reference] Japan's Number of Births and Pigeon's Growth

Japan's number of births\*, peaking at 2.09 million per year in 1973, has been on a declining trend, and fell below 1.00 million per year for the first time in 2016. Temporary decline in the number of births amid the COVID-19 pandemic is expected to be further accelerated. Against the backdrop, Pigeon maintains its sales while improving profitability by reinforcing in-store promotion, proposing the new usage, entering new categories such as baby strollers, and enhancing product competitiveness through adding value to existing products.



Recently released new products in the Japanese market



\*Source: Based on research by Pigeon

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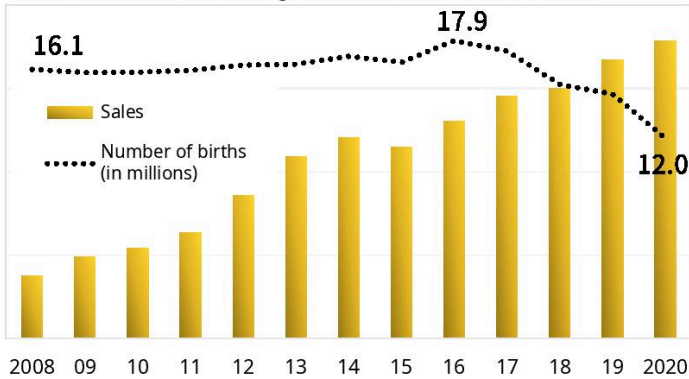
Here is a graph showing the number of births in Japan and sales of baby and mothers care business in Japan. Although the number of births peaked in 1973 and has continued to decline, we have been able to maintain sales and improve profitability by strengthening in-store activities, entering new categories and strengthening our product range by adding more value.



## [Reference] China's Number of Births and Pigeon's Growth

After hitting its peak at 17.90 million in 2016, China's number of births\* these days has been on a downward trend. Despite the headwind, Pigeon's sales show a stable increase through the launch of many new products every year, expansion of sales channels, and strengthening of digital marketing. Therefore, we do not equate a decline in the number of babies born with a contraction of growth opportunities in the medium to long term.

China's Number of Births and Pigeon's Sales (Sales in Mainland China)



2020 vs. 2016  
 Number of births: declined by 33%  
 Pigeon's sales: grew by 37%

\*Source: Based on research by Pigeon

Likewise, in China, the number of births has not increased since 2008 and has continued to fall over the past few years, but sales in China have been growing steadily. There is much more room for improvement in market share in each category in China than in Japan. By increasing our market share and expanding our product categories, we believe that we can continue to grow our sales in China.

## Initiatives During 2H of Fiscal Year Ending Dec. 31, 2021 (New Products)

Placing the highest priority on strengthening *monozukuri* (manufacturing), Pigeon plans to launch more than 200 SKU new products\* in the second half this year. The Group will continue to make investments to strengthen *monozukuri* in the period of the next Medium Term Business Plan.

- China: Launching a new model of nursing bottles in China ahead of other markets in the world
- Japan: Launched Pigeon's first baby bouncers "Wuggy," designed by Naoto Fukasawa, a prominent product designer
- China: Launched stainless thermal cup for babies in collaboration with Zojirushi Corporation
- Singapore: Launching several new skincare series



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\*Including updated products

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We will launch a large number of new products in the second half.

As I explained in the Mid-term Business Plan, we have increased our investment in R&D, and I believe that this will gradually come to fruition. In the second half, we plan to launch more than 200 SKUs of new products in total.

In China, in addition to the skincare series I mentioned earlier, we have collaborated with ZOJIRUSHI CORPORATION to launch stainless steel warming cups. And we will start to sell new nursing bottles and nipples in September.

In Japan, we launched our first baby bouncer in July. We asked Mr. Naoto Fukasawa, a prominent product designer, to design the product. We are now selling the product exclusively through Akachan Honpo Co., sales are far exceeding our plans.

In Singapore, we launched the Protéqua, a skincare series. This is mainly for the protection of skin, and we will launch a botanical skincare series as new skincare series in the second half. I believe this will be sold in the whole Southeast Asian region.

## Forecast for the Fiscal Year Ending Dec. 31, 2021 (Consolidated PL) (under New Standard)

The actual results for the 1H were largely in line with internal expectations; therefore, no changes have been made to the full-year forecast.

(Unit: Million JPY)	FY Dec. 2020		FY Dec. 2021		
	Actual	% of total	Budget	% of total	YoY Change
<b>Net Sales</b>	94,021	100.0%	100,800	100.0%	107.2%
<b>Cost of Sales</b>	49,459	52.6%	51,300	50.9%	103.7%
<b>Gross Profit</b>	44,562	47.4%	49,500	49.1%	111.1%
<b>SG&amp;A Expenses</b>	29,482	31.4%	33,000	32.7%	111.9%
<b>Operating Income</b>	15,080	16.0%	16,500	16.4%	109.4%
<b>Non-operating Income (Expenses)</b>	1,035	1.1%	200	0.2%	19.3%
<b>Ordinary Income</b>	16,113	17.1%	16,700	16.6%	103.6%
<b>Extraordinary Income (Losses)</b>	(277)	(0.3%)	–	–	–
<b>Net Income Attributable to Non-controlling Interests</b>	216	0.2%	200	0.2%	92.6%
<b>Net Income Attributable to Owners of Parent</b>	10,643	11.3%	11,100	11.0%	104.3%

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

[Currency Rates]  
Dec. 2021 Budget: US\$1 = JPY 104.00 / CNY 1 = JPY 16.00  
Dec. 2020 Results: US\$1 = JPY 106.77 / CNY 1 = JPY 15.47

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We plan to launch a number of new products in each of these areas in the second half of the year. Despite the impact of the spread of infectious diseases, there has been an improvement since the previous year in areas such as India and Malaysia, and we expect factory operations to recover once the spread of infectious diseases going to stop. We did not revise our initial targets for the fiscal year.

## Shareholder Return and Investment Related Indicators

### [Shareholder return indicators under 7th Medium-Term Business Plan (2020 - 2022)]

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

Dividends	Dec. 2019		Dec. 2020		Dec. 2021	
	Interim (Actual)	Year-end (Actual)	Interim (Actual)	Year-end (Actual)	Interim (Scheduled)	Year-end (Expected)
Dividend per Share (JPY)	35	35	36	36	37	37
Dividend Payout Ratio	72.7%		81.0%		79.8%	

(Unit: Million JPY)

<Ref.> Investment-related Indicators (Consolidated)	Dec. 2019		Dec. 2020		Dec. 2021	
	Mid-year (Actual)	Full-year (Actual) *4	Mid-year (Actual)	Full-year (Actual)	Mid-year (Actual)	Full-year (Forecast)
Capex (*1)	2,009	3,869	1,690	4,184	2,013	4,424
Depreciation (*2)	1,966	3,372	1,968	3,971	1,986	3,990
R&D Expenses (*3)	1,536	3,059	1,430	3,115	1,709	3,875

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

\*2 : Depreciation (including amortization of goodwill)

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

\*4 : FY Dec. 2019; 11 months actual for Japan Domestic

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As for the dividend, we have not changed our initial dividend forecast of JPY37 per share.

That is all for the explanation. Thank you very much.

## Question & Answer

Q&As are summarized by Business segment.

### [Overall]

**Q. How did the overall performance in the first half compare to the internal plan? Did you make any cost reductions to secure operating profit in the first half?**

A. Both sales and operating profit were almost in line with the internal plan. Regarding to SG&A expenses, we have continued to invest aggressively in R&D this year, and we did not reduce what we need to spend for growth. On the other hand, in the first half of the year, due to the impact of COVID-19, we were not able to carry out some activities as planned, and as a result SG&A expenses in these areas fell.

**Q. Inventories on the balance sheet (B/S) have increased, are there any major problems with inventories?**

A. In the current fiscal year, the global shortage of containers and soaring ocean freight rates have become major issues. In the case of Lansinoh, for example, most of the stock is offshore. Therefore, as it will steadily decrease once the shipments have arrived, we do not expect any problem. We know there is a little more of offline inventory in China, but we don't find any big problem that needs to be addressed.

**Q. Pigeon is planning to launch more than 200 SKUs as new products in the second half of the year. How much is this a large number compared to previous years?**

A. 200 SKUs of new products in the second half of the year for the Group as a whole is considerably more than in previous years. While it is difficult to develop products as planned due to the impact of COVID-19 and other factors, it is very encouraging that we are able to launch many products in the second half alone. I am particularly encouraged by the fact that new products developed by our Singapore business, which is responsible for Southeast Asia, will be launched one after another.

**Q. Could you tell us about the new high-end model wide neck bottle that will be launched in the second half of the year?**

A. The most important feature of the new nursing bottle is that it is even closer to the structure of the mother's nipple than the current model. The nipple that comes with our new nursing bottle is based on further research into the sucking behaviors that babies make when they take breastmilk from their mothers' breasts. In order to achieve a more natural sucking motion, the nipple material was also reviewed. It was very difficult to mass produce, but we believe that this difficulty is a high barrier to entry for our competitors. We plan to launch the new product in China in the second half of this year, ahead of the rest of the world. In Southeast Asia, where the proportion of wide neck bottles sold is lower than in China and Japan, the new product will help to accelerate sales of wide neck bottles and improve the Group's overall profitability.

**[Japan Business]**

**Q. What are the reasons for the decline in sales in Japan in the first half of the year? Also, how does this compare with the internal plan?**

A. Domestic Baby and Mother Care ("Domestic BM") accounts for approximately 70% of the total Japan business, and the main reason for the result is that sales in Domestic BM declined by ¥600 million year-on-year. The main reason for the decline in domestic BM sales is that sales of consumables such as wet wipes and cleaning and disinfecting products, which were in special demand due to last year's Covid-19 disaster declined by ¥800 million year-on-year. However, quarterly sales of domestic BM were ¥600 million lower in Q1 alone year-on-year, quarterly sales in Q2 alone was slightly higher year-on-year. Sales of Japan business fell short of the company plan, partly due to a voluntary recall of baby strollers, but the business is progressing positively compared with the previous quarter and we will aim to make up for this in the second half.

**Q. What is your forecast for the second half of the year for the Japan business?**

A. We have high expectations for wipes and high-priced products. In the first quarter of the current fiscal year, we began selling wipes in the premium segment, but we struggled due to a reaction to the special demand for COVID-19. In the second half of the year, we expect the backlash to settle down and sales to grow. Regarding to high-priced products, in addition to our existing electric nasal aspirators and baby strollers, we launched a new bouncer last month. With a retail price of around 25,000 yen, the bouncer is one of the most expensive products in the category, but it got off to a good start. It may be difficult to recover all of the decline in sales in the first half, but we expect second half to be stronger than the first half thanks to a series of new products and growth in high-priced products.

**[China Business]**

**Q. How was sell-in in mainland China in the first half?**

A. Sell-in in mainland China was up 10% year-on-year in local currency terms, and ended the quarter up 8.5% year-on-year in Q2 alone. Seeing that last year's revenge consumption, it was a big hurdle for us, we believe that the results for Q2 this year are not too bad.

**Q. What is the reason for the 0.8pt decline in the gross profit margin of the China business?**

A. In the first half of the current fiscal year, sales of skincare products have been stronger than sales of nursing bottles, increasing by 39% year-on-year. The profit margin on skincare products is not as high as that on bottles/nipples, so the change in the product mix led to a slight decline in the gross profit margin.

**Q. How was sell-out in mainland China in the first half?**

A. Sell-out in mainland China was -7% y-o-y in local currency terms and -14% y-o-y in Q2 alone. The Q2 alone ended at around 14%. Last year's Q2 saw strong post-COVID-19 revenge spending, and demand for the 618 event and other events was strong. It is difficult to make a simple comparison because demand for events was higher than usual. For example, a comparison of the Q2 of

2019(before COVID-19) and the Q2 of this year shows that sell-out in the Q2 of this year was 14% higher than in 2019, a double-digit increase.

In terms of the composition of sales by channel, online sales accounted for 65.2% and offline sales 34.8% of total sales in the first half. Online channel sales were -4.6% and offline sales were -11% y-o-y.

**Q. Please tell us about the performance of your mainstay product, nursing bottles in China and the competitive environment in the market.**

A. Sales (sell-in) of nursing bottles, our main product in China, increased by 5% year-on-year in the first half and by 1.1% year-on-year in the Q2 alone. A comparison of the Q2 of FY19 (before COVID-19) alone and the Q2 of this fiscal year alone shows that sales of this Q2 grew by more than 20%. We believe that the nursing bottle category is growing steadily.

We estimated market share (in terms of value) was 44% at the end of the second quarter of the current fiscal year, maintaining the 44% share at the end of the previous fiscal year in the nursing bottle category. Although competition in the nursing bottle category has become fierce due to the revitalization of Asian brands, we are still ranked No. 1 in the category in this year's 618. In the second half, we plan to introduce a new nursing bottles at a higher price than the current model, and we expect our market share to increase in the second half.

**Q. What is the price range for the new nursing bottles to be launched in the second half of the year?**

A. We think the retail price of the new nursing bottles could be as much as 20% higher than the existing product. In the nursing bottles market in China, Asian brands are replacing the famous Western brands. In particular, the prices of some bottles of Asian brand are higher than ours so we think that we can raise the price of our new products to a certain extent. We expect that this increase in unit prices will further contribute to the growth in sales and profits of our China business.

**Q. How do you view the media coverage of the "three-child policy"?**

A. We see China's 3-child policy as a positive thing. The last time the policy was changed to allow a family to have up to 2 children, the number of births began to increase after 2 years of decline before that. We believe that this policy change will surely have an impact similar to that. We expect that the Chinese government will come up with specific policy measures other than the current tax exemption and so on.

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