

## **Summary of Results Briefing for the Q4 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 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.

### Event Summary

Date: Tuesday, Feb., 15, 2022 4:00 PM (JST)

Number of Speakers: 3

Norimasa Kitazawa President and CEO

Tadashi Itakura Director, Senior Managing Executive Officer

Yasunori Kurachi Director, Managing Executive Officer

## Highlights for FY Dec. 2021 (1)

- Named as "Winner Company" at 2021 Corporate Governance of The Year Awards
- Won **Minister of State Commendation** at 2021 Selection of Consumer-Oriented Companies for Best Practice



[Major acknowledged initiatives]

- Advanced initiatives in corporate governance
- Research and development activities to capture consumer requirements (observe breastfeeding of more than 250 pairs of mother and baby in a year)
- Opened human milk bank on the first floor of Pigeon's headquarters to promote activities to protect very low birth weight infants

We want to make the world more baby-friendly by furthering our commitment to understanding and addressing babies' unique needs. With this purpose of the Company, we operate our businesses from the long-term view, expanding the Group businesses and maximizing enterprise value (both economic value and social value).

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**Kitazawa:** Thank you very much for joining our results briefing. As introduction, we have three highlights from last year and this year.

The first is that our company was recognized as a "Winner Company" at the 2021 Corporate Governance of The Year Awards\*. This was the first time for us to be named a Winner Company. I believe that our company's progressive approach to baby care products was highly evaluated.

Secondly, also in 2021, we won the Minister of State Commendation at the 2021 Selection of Consumer-Oriented Companies for Best Practice. I think that our research activities and product development that meticulously collect the needs and opinions of consumers were evaluated. In addition, I believe that the establishment of the human milk bank has contributed to the awards.

\*Note: Corporate Governance of the Year Awards is a registered trademark of the Japan Association of Corporate Directors.

## Highlights for FY Dec. 2021 (2)

■ **Launched a new model of nursing bottle (End of September 2021)**

- Ahead of any other region, launched a new model of nursing bottle, "Ziran Shigan III," on the major Chinese EC platforms
- Expanded our market share in value of nursing bottles to 45% as of 4Q/Dec. 2021, up more than 3 points compared to Dec. 2019.

■ **Double 11 (Single's Day) Shopping Festival**

- Sales rose by 4% from the previous year across the EC channels. When compared with 2019 (pre-pandemic), sales increased by 28%.
- Nursing bottles and skincare products ranked as No.1 by category at JD.com. Nursing bottles also won No.1 at T-mall.



Lastly, in terms of financial highlights, we launched our third-generation nursing bottle in China in September last year. As a result, our estimated market share mainly EC in the nursing increased to 45%, up about 3 percentage points from 2019.

Sales in the Double 11 shopping festival grew by 4% YoY. Compared to 2019, they represented a 28% YoY increase. Besides, according to the JD rankings for Double 11 period, our nursing bottles continued to maintain the top position.

## Results - Consolidated PL (under New Standard)

(Unit: Million JPY)	FY Dec. 2021 Forecast		FY Dec. 2021			
	Initial Plan	Revised Plan	Actual	% of Total	vs Initial Plan	vs Revised Plan
<b>Net Sales</b>	<b>100,800</b>	<b>94,300</b>	<b>93,080</b>	<b>100.0%</b>	<b>92.3%</b>	<b>98.7%</b>
<b>Cost of Sales</b>	51,300	49,500	49,008	52.7%	95.5%	99.0%
<b>Gross Profit</b>	<b>49,500</b>	<b>44,800</b>	<b>44,072</b>	<b>47.3%</b>	<b>89.0%</b>	<b>98.4%</b>
<b>SG&amp;A Expenses</b>	33,000	31,600	30,735	33.0%	93.1%	97.3%
<b>Operating Income</b>	<b>16,500</b>	<b>13,200</b>	<b>13,336</b>	<b>14.3%</b>	<b>80.8%</b>	<b>101.0%</b>
<b>Ordinary Income</b>	16,700	14,600	14,648	15.7%	87.7%	<b>100.3%</b>
<b>Net Income Attributable to Owners of Parent</b>	11,100	9,100	8,785	9.4%	79.1%	96.5%

[Currency rates for FY Dec. 2021]

Initial Plan: US\$1 = JPY 104.00 / CNY 1 = JPY 16.00

Revised Plan: US\$1 = JPY 109.22 / CNY 1 = JPY 16.90

Results: US\$1 = JPY 109.85 / CNY 1 = JPY 17.03

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This shows the results of last year. Sales were 92.3% of the initial plan. They were 98.7% of our revised forecast, slightly below against it. Operating income was 80.8% of the initial plan. It was 101.1% of the revised forecast. We achieved Operating income and Ordinary income.

## Results - Consolidated PL (under New Standard)

Net sales: Almost flat compared to the last year due to the sluggish consumption amid the resurgence of pandemic in Japan.

Operating income: Decreased YoY because of lower gross margin from a decline in sales, as well as increased SG&A associated with reopening sales under the pandemic.

(Unit: Million JPY)	FY Dec. 2020*		FY Dec. 2021		
	Actual	% of Total	Actual	% of Total	YoY Change
<b>Net Sales</b>	<b>94,021</b>	<b>100.0%</b>	<b>93,080</b>	<b>100.0%</b>	<b>99.0%</b>
<b>Cost of Sales</b>	49,459	52.6%	49,008	52.7%	99.1%
<b>Gross Profit</b>	<b>44,562</b>	<b>47.4%</b>	<b>44,072</b>	<b>47.3%</b>	<b>98.9%</b>
<b>SG&amp;A Expenses</b>	29,482	31.4%	30,735	33.0%	104.3%
<b>Operating Income</b>	<b>15,080</b>	<b>16.0%</b>	<b>13,336</b>	<b>14.3%</b>	<b>88.4%</b>
<b>Ordinary Income</b>	16,113	17.1%	14,648	15.7%	<b>90.9%</b>
<b>Net Income Attributable to Owners of Parent</b>	10,643	11.3%	8,785	9.4%	82.5%

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

[Currency rates]

Dec. 2021 Results: US\$1 = JPY 109.85 / CNY 1 = JPY 17.03

Dec. 2020 Results: US\$1 = JPY 106.77 / CNY 1 = JPY 15.47

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This is the consolidated P&L under New Standard. Sales ended at 99% of the previous year's level. Operating income was 88.4% YoY.

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

(Unit: Million JPY)	FY Dec. 2020*				FY Dec. 2021				
	Net Sales	% of Total	GP Margin	Segment Profit	Net Sales	% of Total	YoY Change	GP Margin	Segment Profit
<b>Consolidated Net Sales</b>	<b>94,021</b>	<b>100.0%</b>	<b>47.4%</b>	<b>15,080</b>	<b>93,080</b>	<b>100.0%</b>	<b>99.0%</b>	<b>47.3%</b>	<b>13,336</b>
Japan Business	41,231	43.9%	34.0%	2,772	38,264	41.1%	92.8%	34.3%	2,065
China Business	36,121	38.4%	52.3%	12,600	37,239	40.0%	103.1%	50.9%	11,792
Singapore Business	12,184	13.0%	38.4%	1,647	12,619	13.6%	103.6%	38.7%	1,811
Lansinoh Business	12,473	13.3%	55.6%	1,370	13,320	14.3%	106.8%	53.5%	953
Elimination of inter-segment transactions	(7,986)	(8.5)%	—	—	(8,363)	(9.0)%	—	—	—

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

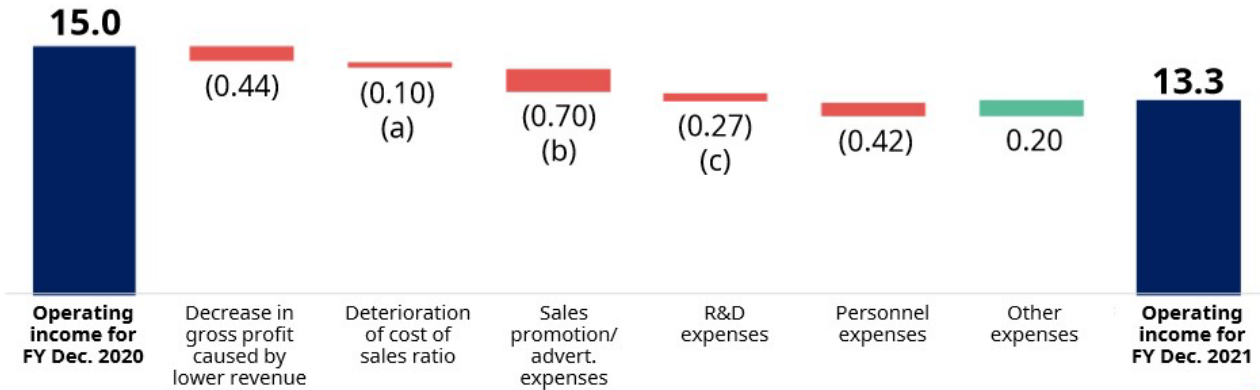
This is the results by business segment. The China business, Singapore business, and Lansinoh business all exceeded the previous year's levels. The Japan business ended at 92.8%.

## YoY Change Factors of Consolidated Operating Income (Full-year) (under New Standard)

- a. Deterioration of cost of sales ratio: Impact of a surge in logistics expenses of physical supply (Lansinoh) and a change in product mix (China)
- b. Sales promotion and advertising: Associated with promotion activities of the product launched in 2021.
- c. Research and Development: Future-oriented investments in the development of renewed version of our core products

(Unit: Billion JPY)

■ Positive factor ■ Negative factor



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Operating income decreased by JPY1.7 billion YoY, and the first reason for this was a decrease in gross profit due to the decline in sales. The second reason was deterioration in the cost of sales rate, mainly due to higher maritime transportation costs at Lansinoh. We also spent on sales promotion and advertising expenses.

In addition, personnel expenses increased by about JPY400 million. JPY150 million out of JPY 400 million was the cost of social insurance in China. In the preceding year, this was exempted amid the COVID-19 pandemic, but last year, we paid it regularly and that decrease Operating income.



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

Increased inventories caused by Lansinoh (inventories on the ocean) and the swelled balance sheet caused by China (increased percentage of E-commerce) and the cheaper yen.

(Unit: Million JPY)	End of FY Dec. 20	End of FY Dec. 21		
	Actual	Actual	YoY Change (Amount)	YoY Change (%)
<b>Cash and Deposits</b>	37,163	35,218	(1,944)	94.8%
<b>Notes and Accounts Receivable - Trade</b>	15,085	16,253	+1,167	107.7%
<b>Inventories</b>	11,376	12,706	+1,330	111.7%
<b>Notes and Accounts Payable - Trade</b>	4,757	4,087	(670)	85.9%
<b>Electronically Recorded Obligations - Operating</b>	1,670	1,623	(47)	97.2%
<b>Borrowings</b>	—	—	—	—
<b>Net Assets</b>	72,625	76,810	+4,184	105.8%
<b>Total Assets</b>	93,472	98,042	+4,570	104.9%
<b>Equity Ratio</b>	74.8%	75.4%	—	—

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In the balance sheet, there was a decrease of about JPY1.9 billion in cash and deposits. The main reason for this is increase of inventories. The amount of inventories increased by around JPY1.3 billion YoY. In addition, there was an increase in net assets. The main reason for the increase of net assets was the cost of land acquisition for a new factory in Fuji, Japan, the construction of which will start this year. Also, property acquisition cost for the expansion of our plant in Indonesia increase our net assets.



## Summary of Results by Business Segment (Net sales at local currency)

<p><b>China Business</b></p>	<ul style="list-style-type: none"> <li>• Sell-in results in mainland China YTD decreased by 6% year on year.</li> <li>• Double 11: Slightly increased compared to the last year, but lower than expected due to a reaction to the robust demand last year. It affected sell-in in 4Q, resulting in the gaps between actual and revised plan.</li> <li>• YTD sell-out decreased by 7% year on year. Online sales expanded to 67% of total sales. (Compared with FY Dec. 2019, total sell-out and online sales increased by 3% and 29%, while offline sales decreased by 27%).</li> <li>• It took until 4Q to adjust offline distribution inventory, but we reduced it to the level of safety stock.</li> <li>• In our core products, a unit price increase in “Ziran Shigan III” partly contributed. Skincare products sold well, recording double-digit sales growth year on year thanks to the launch of new products.</li> <li>• Sales of Avocado skincare series that are exclusively sold at offline shops topped 1 million units within a year from its launch.</li> <li>• The market share in value of nursing bottles exceeded 45%, representing more than 3 points increase compared to 2019.</li> </ul>
<p><b>Japan Business</b></p>	<ul style="list-style-type: none"> <li>• Amid the pandemic where the half of the year was under the state of emergency, customers continue to refrain from going out almost throughout the year.</li> <li>• Net sales in the Baby Care Business declined 6% YoY. No demand from inbound tourists and easing special demand for consumables driven by the COVID-19 affected sales.</li> <li>• Products adaptable to new lifestyle, such as breast pump, oral care, electric nasal suction, and microwavable packed soft rice for Babies sold well.</li> <li>• Core products such as nursing bottle, skincare, breast pump, and oral care expanded their market shares.</li> <li>• The market share* of nursing bottles stood at 88%. (Calculation method was changed from this fiscal year.)</li> <li>• Health and Elder Care Business improved its gross margin by 1.9 points by streamlining the product portfolio as planned.</li> </ul>

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\* Survey conducted by the Company (sell-out, in value, includes Nipples)

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This shows a summary of results by business segment. In China, the sell-in result in mainland was 94% YoY on a local currency basis. As I mentioned earlier, the performance in the Double 11 shopping festival grew 4% YoY, but it was not as great as expected. The cumulative sell-out result was 93% of the preceding year's level, so we no longer have a huge gap between the sell-in and sell-out results here. In the core products, we introduced new nursing bottles and nipples to the market, which contributed a little to sales through an increase in unit prices. Skincare products continued to perform well and maintained double-digit growth. The ratio of online sales increased to 67%, up about 2 percentage points YoY from the preceding year's 65%. Last year, as an experiment, we launched the Avocado skincare series exclusively for offline channels, which exceeded 1 million unit sales in the first year. We found that we still have a room to grow offline channels such as by launching offline-exclusive products.

Next is the Japan business. Half of the year here was under the State of Emergency, and the business was considerably affected by it. Net sales in the Baby Care business ended at 94% of the year-before level. In 2020, there was some residual inbound demand, and special demand for Covid-19 in some consumables, but these were disappeared and resulting in a year-on-year decline in sales. However, out market shares of core products are increasing, i.e., nursing bottles, skincare products, breast pumps, and oral care products. In Japan, the market share of our nursing bottles was 88%.

## Summary of Results by Business Segment (Net sales at local currency)

<p style="font-size: 1.2em; margin: 0;">Singapore Business</p>	<ul style="list-style-type: none"> <li>Domestic sales in India and Malaysia continued to recover from the pandemic, up 8% and 8% YOY, respectively.</li> <li>Among export destination, Vietnam and Australia showed strong sales throughout the year. Conversely, net sales in the Middle East were sluggish amid the lingering effect of pandemic.</li> <li>Core products such as nursing bottles, skincare, breast pumps, and oral care experienced double-digit sales growth from the previous year.</li> <li>Won Best Baby Bottle at Influential Brands and the Asian parent Awards 2021.</li> <li>As new skincare series (Natural Botanical) were launched, we boosted marketing activities for further growth.</li> <li>Bolstering EC channel contributed to the resilient supply chain even under the pandemic.</li> </ul>
<p style="font-size: 1.2em; margin: 0;">Lansinoh Business</p>	<ul style="list-style-type: none"> <li>Net sales in North America increased 6% year on year. Sales through both online channel and mass retailers increased.</li> <li>Sales of nipple creams, a main product, maintained robust sales. Sales of nursing pads struggled.</li> <li>Sales of the “antenatal and postpartum care” products launched in June are exceeding the plan.</li> <li>In Europe, especially Germany, Benelux, and the UK increased sales. Sales in China were below the previous year due to an intense competition of consumables.</li> <li>In North America, nipple creams, manual breast pumps, and nursing pads maintained top market shares.</li> <li>Gross margin shrunk 3.3 points due to escalating procurement and logistics expenses, which were included in cost of sales. Also, a surge in logistics expenses, which were recorded as SG&amp;A, deteriorated operating margin.</li> <li>Operating results were in line with the plan, except for the impact of the sharp rise in logistics expenses.</li> </ul>

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Next is the Singapore business. Full-year sales in India expanded YoY. Sales in Malaysia also increased YoY. I think we can say that the business in these countries has entered a recovery phase. In the export market, Vietnam and Australia performed well for the full year, but the Middle East struggled due to the impact of COVID-19. In terms of the core products, sales of nursing bottles, breast pumps, and skincare and oral care products marked double-digit YoY growth.

Next is the Lansinoh business. Sales in North America were strong, ending at 106% of the year-before level. This growth was seen in both the online channels and mass retailers. Although sales of nipple creams, a main product, increased, but the sales of nursing pads and other consumables struggled. Sales of birth prep & postpartum care products which were launched in June exceeded the initial plan. We expect that they will perform very favorably in the future. In Europe, Germany, Benelux, the UK, and Turkey, an item which is missing in the slide, sales performed very well in all regions. Only Lansinoh China struggled due to competition of consumables. In addition, the Lansinoh business was the most affected by rising ocean freight rates, and its gross margin deteriorated by about 3.3 percentage points.

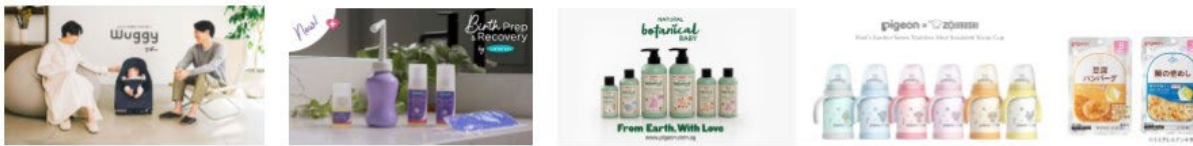
## FY Dec. 2021 Progress against 7th Medium-Term Business Plan in Terms of Core Product Strategy and Regional Product Strategy

Our core products maintained strong growth in 2021. Under the Core product strategy and Regional strategy on which we focus in the 7th medium-term business plan, we have marketed competitive products to various regions.

### Core products: nursing bottles, skincare, breast pumps, oral care



### Regional products: Product lines tailored to each market characteristics



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This is the update of the progress of the 7<sup>th</sup> Mid-term plan. At the start of the current medium-term business plan, we divided the Company into the four business segments, each with its own R&D function. They have started to function smoothly, and various new products are now in the stage of shipment or preparation.

Not only the new nursing bottles and nipples, there were the basic skincare products in China, new breast pump at Lansinoh, and the electric toothbrushes in China and Japan.

Also, in Japan, we launched the baby Wuggy bouncer, and it has been doing very well. In addition, Lansinoh has launched birth prep & postpartum care products which are also doing very well. In the Singapore area, we have introduced botanical skincare products to the market. They have been very well received. We also launched a new drinking cups in collaboration with Zojirushi Company in China market.

## Business Plan for FY Dec. 2022 (Consolidated)

Net sales: Will grow by 6% YoY due to full-scale rollout of the third generation of *Bonyu Jikkan* (Breast bottle realize series) globally including Japan.

Profit: Gross margin and operating margin are expected to increase by 1.4 points and 0.1 points, respectively, due to improved profitability through the launch of new products as well as mark-up of the existing products.

(Unit: Million JPY)	FY Dec. 2021		FY Dec. 2022		
	Actual	% of Total	Plan	% of Total	YoY Change
<b>Net Sales</b>	<b>93,080</b>	<b>100.0%</b>	<b>98,700</b>	<b>100.0%</b>	<b>106.0%</b>
<b>Cost of Sales</b>	49,008	52.7%	50,600	51.3%	103.2%
<b>Gross Profit</b>	<b>44,072</b>	<b>47.3%</b>	<b>48,100</b>	<b>48.7%</b>	<b>109.1%</b>
<b>SG&amp;A Expenses</b>	30,735	33.0%	33,900	34.3%	110.3%
<b>Operating Income</b>	<b>13,336</b>	<b>14.3%</b>	<b>14,200</b>	<b>14.4%</b>	<b>106.5%</b>
<b>Non-operating Income (Expenses)</b>	1,311	1.4%	100	0.1%	7.6%
<b>Ordinary Income</b>	14,648	15.7%	14,300	14.5%	97.6%
<b>Extraordinary Income (Loss)</b>	(1,117)	(1.2)%	—	—	—
<b>Net Income Attributable to Owners of Parent</b>	8,785	9.4%	9,500	9.6%	108.1%

[Currency rates] FY Dec. 2022: US\$1 = JPY 112.00 / CNY 1 = JPY 17.50 ← FY Dec. 2021: US\$1 = JPY 109.85 / CNY 1 = JPY 17.03

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As for this year's plan, we set a consolidated sales plan of 106% of the previous year's result. Along with that, we would like to achieve operating income of 106.5% YoY.



## Business Plan for FY Dec. 2022 (Business Segment PL)

(Unit: Million JPY)	FY Dec. 2021				FY Dec. 2022				
	Actual	% of Total	GP Margin	Segment Profit	Plan	% of Total	YoY Change	GP Margin	Segment Profit
<b>Consolidated Net Sales</b>	<b>93,080</b>	<b>100.0%</b>	<b>47.3%</b>	<b>13,336</b>	<b>98,700</b>	<b>100.0%</b>	<b>106.0%</b>	<b>48.7%</b>	<b>14,200</b>
Japan Business	38,264	41.1%	34.3%	2,065	38,900	39.4%	101.7%	35.0%	2,350
China Business	37,239	40.0%	50.9%	11,792	41,000	41.5%	110.1%	53.2%	13,000
Singapore Business	12,619	13.6%	38.7%	1,811	12,400	12.6%	98.3%	36.3%	1,300
Lansinoh Business	13,320	14.3%	53.5%	953	14,600	14.8%	109.6%	56.2%	1,050
Elimination of inter-segment transactions	(8,363)	(9.0)%	—	—	(8,200)	(8.3)%	—	—	—

Next, looking at each business segment, the sales plan for the Japan business is 101.7% of the previous year's level, and that for the Baby Care business alone is 103% YoY. The sales plan for the China business is 110%, and that for the Singapore business is 98.3%, which I will explain the reason later. With the sales plan for the Lansinoh business is 109.6%, and the total sales plan is 106%. The Singapore business, if you look at external sales alone here, will be up 13% YoY. As the plan for the two plants in Thailand is lower compared to the previous year, the plan for the overall Singapore segment is 98.3%. Just external sales of the Singapore business will be 113% YoY.

## FY Dec. 2022: Topics by Business Segment

Group-wide	<ul style="list-style-type: none"> <li>• Back to growth track by selecting nursing bottle and skincare as focus areas.</li> <li>• Strengthen our No.1 nursing bottle brand through the launch of <i>Bonyu Jikkan</i> (third generation) globally.</li> <li>• Enhance productivity such as by reassessing the price of existing products through product renewals and improving product mix.</li> <li>• Continue to reinforce <i>monozukuri</i> (develop and manufacture products) by launching higher-end products of the existing category and entering or creating new categories.</li> <li>• Reduce the effect of higher material price by marking up the selling price while curbing costs.</li> </ul>
China Business	<ul style="list-style-type: none"> <li>• Sales in mainland China are expected to increase by 7% YoY.</li> <li>• Plan to complete a switchover to new product “Ziran Shigan III” on the major sales channel, aiming to capture 50% market share of nursing bottles in 2022.</li> <li>• Bolster EC platforms such as Tiktok, Wechat Mall, and Pinduoduo.</li> <li>• Start marketing of Pigeon products made in China to North American market</li> <li>• Accelerate growth by expanding product lineup: Ssence, a baby skincare brand with direct shipment from the factory, and skincare products for babies aged 2 years or older.</li> <li>• Continue to strengthen offline sales by developing products only for the offline sales channel</li> </ul>

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This is the main topics of FY Dec. 2022 by segment. As for the overall strategy, we will focus on nursing bottles and skincare products as a matter of selection and concentration.

In the area of improving profitability, we would like to improve gross profit by 1% or more every year and the next medium-term business plan starting next year. Also, we need to strengthen our “Monozukuri (manufacturing)”. As for raw materials, although some of them have increased in price, we do not expect them to have a significant impact on our earnings at this point of time as we are going to increase our selling price or improve production efficiency.

As for the China business, we plan growth to 107% YoY in the mainland alone.

At online channel, the replacement of the old nursing bottles and nipples with the new ones is expected to be done by the end in April. We expect new products will contribute significantly to sales and profits in 2022 and we would like to increase the market share of nursing bottles from 45% to 50% in China market. Also, we are going to tap a new online platform such as Tiktok, Wechat Mall, and Pinduoduo. In addition, the China business will start selling Pigeon products in North American market. Sales in North America will start around this month via online. So, we hope this business will work well.

Not only the baby care goods, we will launch Ssence products for mothers this year, which are part of our product expansion. In addition, skincare products for babies aged three or older will also be launched this year.

## FY Dec. 2022: Topics by Business Segment

<b>Japan Business</b>	<ul style="list-style-type: none"> <li>• No sales from inbound tourists are included in the plan. We assume that annual births are around 800,000.</li> <li>• Sales of Baby Care business are expected to increase by 3% YoY.</li> <li>• Profitability is expected to rise from the previous year, driven by launching new <i>Bonyu Jikkan</i> (third generation) and expanding our market share due to the renewal of basic skincare products</li> <li>• Expand the current skincare category and enter into the new business area, powered by an investment in the factory in Fuji (expected to start operation in 2023).</li> </ul>
<b>Singapore Business</b>	<ul style="list-style-type: none"> <li>• Sales to external customers will increase by 10% or more YoY by focusing on the core products (nursing bottles and skincare).</li> <li>• Launch <i>Bonyu Jikkan</i> (third generation) into Southeast Asia markets (2H/Dec. 2022). Raise unit price and secure a position as a premier brand.</li> <li>• Expand sales of skincare products (Natural Botanical) as the next pillar after the nursing bottles and develop them as an established brand.</li> </ul>
<b>Lansinoh Business</b>	<ul style="list-style-type: none"> <li>• Centering around the core products and antenatal and postpartum care products, net sales are expected to increase by 8% YoY.</li> <li>• Extend the product line of antenatal and postpartum care with the aim to increase its presence to 4% of total sales.</li> <li>• Launch new generation of breast pumps.</li> <li>• Implement a productivity improvement strategy by streamlining product portfolio in the struggling Chinese market.</li> <li>• Logistics expenses will continue to rise even in 2022.</li> </ul>

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Next is the Japan business.

To talk briefly, we will launch new nursing bottles and nipples onto the market. In addition, we will completely renew our basic skincare series, so we believe that we will be able to achieve YoY growth in the Japan business, including the higher unit prices.

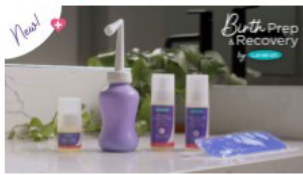
In the Singapore business, we will increase our market share by specializing in nursing bottles and skincare products. In the Southeast Asian region, sales of standard-neck nursing bottles and nipples are still large volume of our sales, but we are gradually shifting to wide-neck bottles and nipples that are higher prices than standard-neck bottles. I believe that this will improve sales and profitability.

Next is the Lansinoh business. Here we expect growth to 108%, mainly in the core products and pre and postpartum care products. As for the pre and postpartum care products, they are still performing very well. I believe that they will grow to nearly 4% of Lansinoh's total sales for the full year of 2022. In addition, we are planning to launch the next generation of breast pumps. The Chinese market is the only one where Lansinoh is struggling, but we will review our product portfolio and make improvements. However, the soaring ocean freight rates, which are still expected to remain high this year, will have some impact on profitability.



## Environmental Change and the Group's Business Opportunities

Changes in external environment	Business opportunities
<ul style="list-style-type: none"> <li>Decline in births</li> <li>Intensifying market competition</li> <li>Changes in customer values</li> </ul>	<ul style="list-style-type: none"> <li>Expand the existing categories by deepening the Group's understanding of what parents consider as the most difficult part in raising children, and create new categories such as mother care, FemTech, and the promotion of the father's childcare.</li> <li>Strengthen and differentiate the key products (nursing bottles and skincare)</li> <li>Enhance customer values in the existing categories by creating more eco-friendly products or higher-end products.</li> <li>Tap into underserved markets and regions for both Pigeon and Lansinoh brands</li> <li>Strengthen the power of brand for which the next generation of customers feels empathy, and become the brand chosen by customers.</li> </ul>



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This is about environmental change and our business opportunities.

The decline in the number of births is a global trend that we need to pay attention to. What we will do in response is to concentrate on our most important products, nursing bottles and skincare products, to increase our market share worldwide. In addition to this, we will work to expand our product categories by creating new categories: Mother care, Femcare, and Femtech products. The current market size of Femcare and Femtech products in Japan is said to be approximately 60 billion yen, and we believe that about half of this market, or 30 billion yen, is a market opportunity for us. We believe that there is a definite market opportunity for Femcare and Femtech products, as evidenced by the strong sales in North America of the prenatal and postpartum care category, which was launched by Lansinoh last year. At the same time, we would like to expand our lineup of products for fathers in the second half of the next mid-term business plan. There are as many mothers and fathers as there are babies, so we believe there is ample room for market expansion. We would like to accelerate the growth of our group while expanding our business in new areas other than babies.

## Shareholder Return and Investment Related Indicators

[Shareholder return indicators under 7th Medium-Term Business Plan]

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		Dec. 2022	
	Interim (Actual)	Year-end (Actual)	Interim (Actual)	Year-end (Actual)	Interim (Actual)	Year-end (Actual)	Interim (Forecast)	Year-end (Forecast)
Dividend per Share (JPY)	35	35	36	36	37	37	38	38
Dividend Payout Ratio	72.7%		81.0%		100.9%		95.8%	

<Ref.> Investment-related Indicators (Consolidated)	Dec. 2019		Dec. 2020		Dec. 2021		Dec. 2022
	Interim (Actual)	Year-end (Actual) <sup>*4</sup>	Interim (Actual)	Year-end (Actual)	Interim (Actual)	Year-end (Actual)	Full-year (Estimate)
Capex <sup>(*1)</sup>	1,980	4,059	1,690	4,185	2,013	6,735	7,600
Depreciation <sup>(*2)</sup>	1,965	3,587	1,967	3,972	1,986	4,161	4,300
R&D Expenses <sup>(*3)</sup>	1,536	3,059	1,430	3,115	1,709	3,603	3,700

\*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 dividends, as we have promised to increase the dividend every year for the current three years of the mid-term plan, we continue to forecast an annual dividend increase of ¥2 per share to ¥76 per share this year. And capital expenditures increased slightly compared to the previous fiscal year. This is because we will rebuild the Fuji factory in our Japan business, and construction is scheduled to begin this year, leading to increased investment.

## Major initiatives in 2021

**Reduce environmental impact**

“Leave a rich earth for the future of babies born tomorrow”



Our own eco label

2021 Actual: 115 SKU

(34% of all our products offered in Japan\*)



- Reduced package size by 30%



- Used 100% recycled PET bottles for clear cases & blister packaging



- Adopted FSC®-certified paper for our core product lines

See Appendix for other ESG activities. \*Baby and mother care products

**Solve social issues surrounding babies and mothers**

“Create a world that celebrates babies the way they are”

Products as a solution of social issues

- ✓ Created new products
  - Launched disposable bottles for breastmilk storage & pasteurization
- ✓ Promoted our current solution products




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Finally, we would like to introduce our ESG initiatives. When we announced our current 7th Mid-term Business Plan, we mentioned that all baby care products sold in Japan that meet our environmental standards will be labeled with the Pigeon Eco Label. As part of our progress, 115 SKUs, or 34% of all baby care products, were labeled with the Pigeon Eco Label during the past year alone. In addition, we are continuously strengthening our lineup of products that address social issues. For example, we expect to launch baby products that can be used in times of disaster this year. That is all for the explanation from me. Thank you very much.

## Question & Answer

Q&As are summarized by Business segment.

### [Consolidated]

#### **Q. Why did net sales fall short of the revised plan but operating income exceeded it?**

A. Net sales fell short of the revised plan mainly because the sales of the China business in Q4 alone fell short of the revised plan. On the other hand, the rebates and sales promotions expense for retailers were also decreased linked to this sales decrease. In addition, the company achieved the revised plan in terms of operating income, which was compensated for by cutting SG&A expenses in other businesses.

#### **Q. Please tell us about any areas, timelines, or expectations that Pigeon is working on entering the femcare and/or femtech market?**

A. The first area we are considering is products such as the "Birth-prep and postpartum care" category that Lansinoh launched June, 2021. We would like to expand these products not only to the Lansinoh business, but also to Japan around 2023, and then to China, Singapore, and other countries. Currently, there are only a few brands of prenatal and postpartum care products in the world, and it is difficult to calculate the size of the global market in specific numbers, but we believe that there is tremendous potential in this area for us to create a market in the future. In addition, since "relieving pain in the sensitive areas" is similar to the domain of healthcare products, we believe that high profitability can be expected by adding value to the product. We would like to consider all possibilities for "manufacturing" in this new area, including collaboration with external partners as well as in-house manufacturing.

#### **Q. Sales and profits have declined for three consecutive fiscal years. Can you share with us your review this situation and outlook for the future?**

A. In 2020, even with the Covid-19 disaster, there was no extreme decline in earnings, and we thought it was a year supported by the strength of the brand. However, in 2021, many unexpected changes in the business environment emerged, including the worldwide and pronounced decline in the number of births due to the Covid-19, logistics disruptions centered on the Lansinoh business, and soaring ocean freight costs. In this environment, we believe there is no further negative factors, and we have begun to implement solutions to each of these changes in the business environment. We would like to make the following efforts to achieve this goal.

#### **Q. You mentioned that you intend to raise the gross profit margin by one percentage point each year. How would you achieve it?**

A. Currently, we are focusing on "Monozukuri (Core manufacturing)" in each of the four businesses, but we will also be conscious of increasing the profit margin of our product portfolio by considering such measures as "making it a condition to secure a certain level of gross margin" for the launch of new products in the future. In addition, we expect that the consumables category, which has relatively low profitability among the Company's products due to intensifying global price competition, will see

a relative decline in its sales composition, but we expect it to contribute to the overall gross profit margin of the Group in the direction of improvement.

### **[Japan Business]**

**Q. 2022 plan does not assume inbound demand, yet Pigeon expects a 3% YoY growth in baby care business. What is the background of this growth plan?**

A. We expect growth drivers to be renewals of our core products, nursing bottles and nipples, and skincare. A new series of "Bonyu-Jikkan" the mainstay nursing bottle, has been on sale in Japan since February 14, 2022, and the retail price has been raised by 10% from the previous series due to product value enhancement such as renewal of functions and design. Since there will be a large initial shipment to replace the old series, we expect sales of nursing bottles and nipples to be particularly large in the first quarter of 2022. In addition, renewed skincare products were also launched on the same day, which we believe will also contribute to higher sales and profits.

### **[China Business]**

**Q. How were the results of Double 11 shopping festival in 2021?**

A. The sales of double 11 period in 2021 was plus 4% YoY, seemingly weaker than in previous years. On the other hand, China in 2020 saw a large rebound in consumption after Covid-19, and the hurdle was very high in some aspects. We also heard that during the double 11 period, local brands sometimes discounted prices by less than half, but we did not step into such excessive price competition, and as a result, we did not spend more than necessary and were ultimately able to increase our market share of baby bottle feeding machines.

**Q. How were the sales by channel for the Q4 alone broken down by sell-in and sell-out?**

A. In the Q4 alone, sell-in was -15.3% YoY and sell-out was about -12% YoY in mainland China on a local currency basis. By channel, online sellout was -8.5% YoY, while offline sellout was -20% YoY. Offline shipments were expected to be adjusted by the end of Q3, but offline sellout was weaker than expected, and this had an impact on Q4 sell-in. Now that the inventory reduction has been made to a level that can almost be called normal, we expect both sell-in and sell-out to grow from onward.

**Q. How was the sell-in for nursing bottles and skincare in mainland China Q4 alone, and the expected growth of both categories in the 2022 plan?**

A. In the Q4 alone, sales of nursing bottle and nipple were down about 10% YoY, while sales of skincare products were up about 11% YoY. In 2021, we plan double-digit growth for bottles and nipples, and more than double-digit growth for skincare products, thanks in part to the effect of new products launched in 2021.

**Q. How was the progress of product replacement and market reaction of new nursing bottles?**

A. On a sell-in basis, we plan to complete the switch to the new series of nursing bottles for major EC platforms around April 2022. So far, the new series has been well accepted by retailers and

consumers, and we have heard that sellout is also increasing. The increase in selling prices is also expected to contribute to sales and profits increase.

**Q. Tell us what you think about the offline decline. Also, please tell us about the assumptions for online and offline in 2022 plan.**

A. In the offline channel, store closures are continuing to occur. Although this trend had been in place prior to Covid-19, and it has accelerated due to the Covid-19. In addition, the Covid-19 has also led to mergers and acquisitions by major chain baby stores, accelerating the pace of store closures and pushing down the offline channel as a whole. However, we believe that the speed of the decline in the number of stores will slow to a certain extent. In the offline channel, we intend to generate solid sales by developing exclusive products other than skincare products in the future. We do not expect a sharp recovery in the offline channel, but since it is one of the most important channels for our consumers, we will try to halt the decline in the offline channel as much as possible through creative measures. Regarding the growth rate of channels in 2022 plan, we expect more than double-digit growth online and about 5% growth offline channels.

**Q. What is your assumption for the number of births in China in 2022?**

A. The number of births in 2021 was approximately 10.6 million, continuing the downward trend from 2020, but the outlook for 2022 is uncertain. However, even if the number of births in 2022 were to decline by 10% from the previous year, the annual number of births in the Chinese market is still very large at nearly 10 million, and we believe that our business growth is possible by increasing our market share in this market.

**Q. The gross profit margin for the China business will increase by 2 percentage points in the 2022 plan, but how do you forecast in the soaring prices of raw materials and the use of SG&A expenses?**

A. We believe that the price hikes in raw material prices can be covered by raising product prices, and our plan for 2022 incorporates raw material price trends as far as we are aware at this point in time. We have also raised the price of nursing bottles by 20% with the introduction of a new series, which will contribute to an increase in the gross profit margin. Regarding the use of SG&A expenses, we plan to work with a new e-commerce platform as well as develop new products and promote them. For example, we plan to roll out new products such as skincare for kids aged 3 and up from the second half of 2022, and will aggressively use expenses for this as well.

**Q. How do you procure the Pigeon products for North American market?**

A. In the North American market, we plan to initially launch products that are available in the Japanese market, which will soon be sold through major EC retailers.

**Q. Do you see any change in the competitive environment in the Chinese market? Also, what is the probability of achieving the 2022 plan (7% YoY increase on a local currency basis), and what is the balance between the first and second half of the year?**

A. The competitive environment in the Chinese market has become even tougher due to a decrease in the number of births and the growing presence of local brands. Local brands sometimes take

measures without regard to profit, such as selling at extremely low prices, and most international brands have been eliminated in the past few years. On the other hand, Pigeon continued to hold the top share in the nursing bottle category in 2021 and is further increasing its market share.

In 2022, we expect not only a full-year contribution from nursing bottles and nipples, which were renewed and priced higher in September of last year, but also further growth in skincare, which has also performed well in the Covid-19. With these two categories as drivers, we believe that 7% YoY growth in mainland China is a sufficiently feasible figure.

Since sell-in sales were ahead in the first half of 2021, sell-in sales were adjusted in the second half, and the full year ended below the previous year's level. The first half (1H) of 2022 sales are expected to be slightly weaker than 1H of previous year, when sell-in sales were strong. However, we expect a solid turnaround to positive sales in the 2H of this year, as 2H of previous year was a tough period.

### **[Singapore Business]**

**Q. What are the factors behind the significant YoY year-on-year growth of the Singapore business, and what is the outlook for 2022 plan?**

A. In 2021, we saw a recovery trend in the major markets and some export markets in the Singapore business, and we were able to outperform the previous year. In the Q4 of 2021, the first batch of shipment of a new series of "Bonyu Jikkan" nursing bottles from our Thai factory to the Japanese market also increased the sales and profit of the Singapore business. As for the 2022 plan, we plan lower sales and profits due to the hurdles set in the previous year and the fact that the Thai factory is also factoring in the burden of raw material price hikes. On the other hand, the Singapore business plans to increase sales to external customers in major markets by more than 10% YoY.

### **[Lansinoh Business]**

**Q. Ocean freight rates are soaring, especially in North America. What is the outlook for 2022 plan?**

A. We expect ocean freight rates in the Lansinoh business to continue to soar in 2022, and our 2022 plan includes the cost increase for this trend.

[End]