Summary of Telephone Conference for the Q1 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:	May 13, 2021 4:30 PM (JST)
Number of Speakers:	2
	Yasuo Kanatsuka, Manager, Business Strategy Department
	Sho Hiratsuka, Associate Manager, Business Strategy Department

Hiratsuka: Thank you for joining our conference call on the financial results for Q1 of the current fiscal year (hereafter "this Q1"). In today's meeting, Kanatsuka, Manager of the Business Strategy Department, and I, Hiratsuka, are participating.

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

For details, please refer to "Changes in Accounting Standards and Application of Accounting Standards for Revenue Recognition, etc.", on page 9 of the summary of financial results for the first quarter of fiscal year ending December 2021.

The results for this Q1, which we are going to talk about today, will refer to the differences between the estimates by applying the new revenue recognition standard to the previous fiscal year's Q1 results (hereafter "the last Q1") and this Q1 results.

As a result, please note that the figures are different from the comparisons of the last Q1 results based on the old standard with this Q1 results based on the new standard, shown in the summary of financial results announced today.

As for the comparisons with the year-before results on consolidated profit and loss statements based on the new standard, please refer to the supplementary material on our website.

Pigeon Corporation

≪New Standard≫ Financial Results for the Q1/2021 (Consolidated PL)

(Results of FY Dec. 2020 in New Revenue Recognition Standard was estimated by Pigeon for your reference)

(Unit: Million JPY)	≪New Standard≫ Q1 / FY Dec. 2020		≪New Standard≫ Q1 / FY Dec. 2021		
	Actual	% of total	Actual	% of total	YoY Change
Net Sales	21,705	100.0 %	21,359	100.0 %	98.4 %
Cost of Sales	11,498	53.0 %	11,190	52.4 %	97.3 %
Gross Profit	10,207	47.0 %	10,168	47.6 %	99.6 %
SG&A Expenses	6,860	31.6 %	7,307	34.2 %	106.5 %
Operating Income	3,347	15.4 %	2,861	13.4 %	85.5 %
Non-operating Income (Expenses)	517	2.4 %	593	2.8 %	114.6 %
Ordinary Income	3,864	17.8 %	3,454	16.2 %	89.4 %
Extraordinary Income (Losses)	(23)	(0.1 %)	(475)	(2.2 %)	―
Net Income Attributable to Non-controlling Interests	63	0.3 %	18	0.1 %	29.0 %
Net Income Attributable to Owners of Parent	2,869	13.2%	2,008	9.4 %	70.0 %

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2021 年 12月期　第１四半期　セグメント別実績

Net Sales by Segment for FY Dec.2021 Q1 (Consolidated)

（単位：百万円）（¥millions）

	20年12月期　第1四半期（新基準換算） FY20 Q1 Result - New Standard						21年12月期　第1四半期（新基準） FY21 Q1 Result - New Standard						
	売上高 Net Sales	構成比 % of total	総利益 Gross Profit	総利益率 GP margin (%)	セグメント利益 Segment Income	セグメント利益率 OP margin (%)	売上高 Net Sales	構成比 % of total	前期比率 % of growth	総利益 Gross Profit	総利益率 GP margin (%)	セグメント利益 Segment Income	セグメント利益率 OP margin (%)
連結計上額 Consolidation	21,705	100.0%	10,207	47.0%	3,347	15.4%	21,359	100.0%	98.4%	10,168	47.6%	2,861	13.4%
日本事業 Japan Business	10,521	48.5%	3,643	34.6%	833	7.9%	9,717	45.5%	92.4%	3,459	35.6%	603	6.2%
中国事業 China Business	6,952	32.0%	3,618	52.0%	2,407	34.6%	7,685	36.0%	110.5%	3,950	51.4%	2,434	31.7%
シンガポール事業 Singapore Business	3,333	15.4%	1,346	40.4%	669	20.1%	2,869	13.4%	86.1%	1,045	36.4%	356	12.4%
ランシノ事業 ※ Lansinoh Business*	3,040	14.0%	1,695	55.8%	399	13.1%	3,117	14.6%	102.6%	1,759	56.4%	318	10.2%
セグメント間取引消去 Elimination of internal trading between segments	▲2,141	▲9.9%	—	—	—	—	▲2,030	▲9.5%	—	—	—	—	—
【以下参考試算値/Reference】													
旧 国内ベビー・ママ事業 Former Dom.Baby & Mother Care Business	6,983	—	2,880	41.2%	910	13.0%	6,309	—	90.3%	2,671	42.3%	600	9.5%
旧 子育て支援事業 Former Child Care Services Business	981	—	171	17.5%	63	6.4%	948	—	96.6%	175	18.5%	75	7.9%
旧 ヘルスケア・介護事業 Former Health & Elder Care Business	1,644	—	464	28.2%	132	8.0%	1,606	—	97.7%	463	28.8%	156	9.7%

注）
・今期（21年12月期）より、日本事業および中国事業は新収益認識基準を適用しています。
・2020年12月期の新基準での実績は試算値です。
・ランシノ上海の売上等は、ランシノ事業に含まれています。

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Note:
・Both the Japan Business and the China Business applied the new revenue recognition standard from the current fiscal year (ending December 31, 2021).
・Results of FY20 in the new revenue recognition standard was estimated by Pigeon for your reference.
・The sales for Lansinoh Shanghai is included in Lansinoh Business Segment.

In this Q1, the Group's net sales decreased by JPY340 million YoY, gross profit was down JPY39 million YoY, operating income down JPY480 million YoY, and net income down JPY860 million YoY.

The reason for the decline in sales was due to the impact of Covid-19 that continued since last year.

Sales in the domestic baby and mother care business were down JPY600 million YoY. In addition, sales in the Singapore business, which encompasses major Asian countries, were down JPY400 million YoY.

With regard to the domestic baby and mother care business, sales from inbound demand, which amounted to several hundreds of millions of JPY in the last Q1, disappeared in this Q1. Another factor is that demand for wet wipes and cleaning and disinfecting solutions, which saw special demand in the previous fiscal year due to the Covid-19 pandemic, has run its course in the current fiscal year.

As for the Singapore business, although the business in Singapore domestic performed well, exports business from Singapore struggled. In addition, due to the disappearance of inbound demand in Japan, shipment from Thai plant to Japan declined, resulting in an overall sales decline of about JPY400 million in the Singapore business. Incidentally, of the JPY400 million losses in the Singapore business, sales companies and factories lost about JPY200 million in revenue, respectively.

As for other segments, sales in the China business increased 10.5% YoY. Sales in Mainland China on a local currency basis under the new revenue standard were also strong, up 12% YoY. Sales in the Lansinoh business increased 2.5% YoY. In local currency terms, Lansinoh sales grew 5.7%.

As for the impact of foreign exchange rates, there was a positive impact of JPY270 million on sales in comparison with the year-before result due to the depreciation of Japanese yen against Chinese yuan, and the appreciation of Japanese yen against the US dollar. There was a positive impact of JPY210 million on gross profit and a positive impact of JPY190 million on ordinary income.

Gross profit was affected by the fall in sales. Although the gross profit amount was down JPY39 million YoY, the gross profit margin for the entire Group was 47.6%, up 0.6 percentage points YoY. An increase of 1.2 points in the GPM in the domestic baby and mother care business contributed to the rise in the overall GPM.

As for operating income, SG&A expenses increased by JPY400 million YoY, resulting in a decrease of JPY480 million in the Group's operating income.

In this Q1, SG&A expenses increased YoY due to aggressive sales promotions, advertising, and R&D expenses, as well as higher shipping and delivery costs due to increased e-commerce sales and higher warehouse costs in China due to a planned increase in inventories.

In the last Q1, sales and marketing activities were severely restricted in each country due to the COVID-19 pandemic. In this Q1, however, sales activities, PR activities, and marketing activities were carried out not only online, but also in offline stores, which led to an increase in sales promotion expenses.

In addition, shipping and delivery costs increased due to the growth of e-commerce, and SG&A expenses increased in proportion to sales.

As for China, warehouse and other costs increased due to the planned increase in inventories to meet orders from e-commerce platformers in a timely manner.

The Group's net income recorded a YoY decrease of JPY860 million.

As announced on the Company's website on April 16, the Company decided to voluntarily recall all 10 models of the Runfee RA8 stroller sold in Japan since 2018 for the purpose of replacing the frames free of charge. As a result, the Company posted an extraordinary loss of JPY500 million.

We apologize to our customers and investors for any concerns this may have caused, but we are determined to address this matter in good faith.

For your information, although we did not disclose this, the results for this Q1 were slightly short of our internal plan, but the size of shortfall was roughly 3% in terms of both sales and income, so Q1 results were close to our expectations.

This was a brief summary of our financial results for Q1 of the current fiscal year.

Pigeon Corporation (7956) Summary of Financial Results for the First Quarter of Fiscal Year Ending December 2021

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statement of Income
(Scope of Consolidation of First Quarter)

(Millions of yen)

	Three months ended March 31, 2020	Three months ended March 31, 2021
I. Net Sales	22,836	21,359
II. Cost of Sales	11,483	11,190
Gross profit	11,352	10,168
Reversal of provision for sales returns	41	―
Provision for sales returns	55	―
Adjusted gross profit	11,337	10,168
III. Selling, General and Administrative Expenses	7,933	7,307
Operating Income	3,403	2,861
IV. Non-operating Income:		
Interest income	42	39
Dividend income	101	124
Subsidy income	379	18
Foreign exchange gains	―	321
Other non-operating income	109	106
Total Non-operating Income	632	610
V. Non-operating Expenses:		
Interest expenses	1	11
Sales discounts	56	―
Foreign exchange losses	40	―
Other non-operating expenses	73	6
Total Non-operating Expenses	171	17
Ordinary Income	3,864	3,454
VI. Extraordinary Income:		
Gain on sales of fixed assets	0	0
Gain on sales of investment securities	33	33
Total Extraordinary Income	33	34
VII. Extraordinary Loss:		
Loss on sales of shares of subsidiaries and associates	37	―
Loss on sales of fixed assets	9	0
Loss on disposal of fixed assets	10	2
Expenses related to voluntary product recall	―	507
Total Extraordinary Loss	56	510
Income before Income Taxes	3,841	2,978
Income taxes - current	1,015	1,599
Income taxes - deferred	(107)	(648)
Total Corporate Income Tax	907	951
Net Income	2,933	2,026
Net Income Attributable to Non-controlling Interests	63	18
Net Income Attributable to Owners of Parent	2,869	2,008

Question & Answer

Q&As are summarized by Business segment.

[Consolidated]

Q. You said that sales were down 3% against the company budget, what is the breakdown by business segment?

A. The China business ended up this Q1 slightly ahead of the plan. The Japan business ended about 5% lower than planned. Singapore is roughly 3% to 4% short, while Lansinoh ended up 5% higher than planned. On the local currency basis, China ended up as planned as we had some positive FX impact.

Q. Margins were also down 3% against the company budget. What are the reasons for this?

A. Our internal plan was originally to use more SG&A expenses. However, the actual SG&A of this Q1 ended up less than the plan. For example, sales-linked expenses were less than the plan due to lower sales. Therefore, the decline in gross profit was covered to some extent by the unspent SG&A expenses, resulting in the similar range of decline for both sales and income.

Q. Can you give us the breakdown of increased portion of SG&A expenses which was JPY400 million more than the last Q1?

A. The breakdown is roughly JPY200 million for sales promotion, and about JPY100 million each for R&D, shipping and delivery, and warehouses.

Q. Is it correct to understand that the decrease in profit in this Q1 was due to an increase in SG&A expenses? Also, how should we view SG&A expenses from this Q2?

A. Gross profit was almost the same as the last Q1. Sales promotion expenses were within our expectations, but some expenses are increased more than we expected, such as logistics cost and that pushed operating income down. On the other hand, we plan to use SG&A expenses aggressively this fiscal year, and actual SG&A expenses in this Q1 were lower than our plan. We will continue to use SG&A expenses in a balanced manner while keeping watching sales and profit performance.

From Q2 onward, we plan to aggressively increase R&D expenses to strengthen manufacturing as we explained in the business plan of FY Dec. 2021 announced this February. In addition, higher logistics costs are now a global trend and it is actually hard to control. On the other hand, warehouse costs in China will be high until Q2 as we increase inventory to prepare for big e-commerce events such as 618 festivals. However, we expect inventory levels to gradually decrease and warehouse costs to fall.

[Japan Business]

Q. In terms of the voluntary recall of strollers, can you tell us about Pigeon's quality control system?

A. We design strollers by ourselves and outsource production to suppliers in China. Our employees (Quality Control professionals) has often visited or been stationed at the supplier's factory to check the quality of our strollers. We have taken all possible measures to ensure the quality of our products by conducting random checks by QC professionals when imported to Japan, however, we have decided to voluntarily recall some models. We will continue to place the highest priority on the safety and security of our customers, and we will further strengthen our quality control system and respond in good faith to restore the trust of all our stakeholders, including our customers and business partners.

Q. Can you give us a summary of this Q1 and your outlook for the Q2 in the Japan business?

A. We have two reasons for the decline in sales this Q1. The first one was the disappearance of inbound demand due to the impact of Covid-19. Another reason was the reduction of the special demand for consumables such as Wet wipes and Cleaning and Disinfecting solutions that occurred in the last Q1. In our internal plan, we had assumed that inbound demand would be zero, but the drop in demand for the consumables was more than we expected.

From Q2 onward, we cannot ignore the impact of the state of emergency, but we have been able to have in-store activities this fiscal year. Also, we found that the ratio of e-commerce sales of the Japan business is much lower than overseas business. So, we are working on the renewal of our online store. We hope we can improve our sales in Q2.

Q. What made the Gross Margin of the Japan business get better than the last Q1?

A. Talking about product categories, Wet wipes sold well in the last Q1 due to the special demand of Covid-19, but the profit margins of these consumables are not as high as products in other categories like Nursing bottles. This year, sales of consumables, which have lower margin, were down and that helps gross margin get higher.

[China Business]

Q. How would you evaluate this Q1 results of the China business? Also, how much are you confident to achieve the full-year plan?

A. We achieved double-digit sales growth in this Q1 as expected. And we will focus on core products such as Nursing bottles and Skincare from the Q2 onward however the high hurdle of the Q2 of the previous year. We believe our next model of the Nursing bottle which will be launched in the second half of this year (2H) also contribute to sales growth in 2H.

Q. What made the Gross Margin of the China business get lower than the last Q1?

A. It was because of the product mix. The sales ratio of Nursing bottles (the highest gross margin) declined slightly and Skincare increased instead. But we positively evaluate the sales growth in skincare as it is one of our core products and we would like to develop it into a major category next to Nursing bottles.

Q. 11% YoY sales increase (Sell-in) of Nursing bottles seems lower in light of huge sales decline of bottles in the last Q1 due to Covid-19?

A. We had a very tough moment in last February due to Covid-19. Our sales of Nursing bottle decreased 12% in the last Q1 because corporate activities and logistics in China came to a halt. On the other hand, however corporate activities and logistics have normalized in this Q1, we guess the great sales of Double Eleven in last November were affected to the sales of this Q1. But it is the fact that sales of Nursing bottles in this Q1 grew by double digits, up 11% YoY. Also, we haven't heard any information that our market share has declined significantly. Therefore, we believe that the competitiveness of our Nursing bottles remains high.

Q. In terms of the increase of inventories in China, is that particularly planned to prepare for 618 festivals?

A. It is still too early to build up inventories for the 618 festivals. We will start preparation for 618 festivals in Q2. The reason of the increase of our inventories is because e-commerce sales ratio has been rising since the last year. We need to be prepared because e-commerce customers tend to have lower inventories and request for quick delivery in shorter lead time.

Q. Sales in the China business grew by 9% YoY, but segment profit grew by only 1%, not as high as sales. What is the background behind this? Also, how do you see profits in Q2 and beyond?

A. Lower profit growth was because SG&A expenses increased YoY. The main reasons for the increase were sales-linked expenses, shipping and delivery expenses due to the increase in the e-commerce ratio. And expenses for sales activities and promotions to offline stores, which we haven't done in the last Q1 due to the Covid-19.

From Q2 onward, we expect SG&A will increase YoY because of the sales-linked expenses such as shipping and delivery costs, etc., and more R&D expense spent than last fiscal year. In terms of profit margin, we see the current trend to continue through the 1H.

From 2H onward, the profit margin is expected to improve due to the launch of a new model of the Nursing bottles and new products such as Skincare. We forecast the profit margin for the full year of this fiscal year is expected to be roughly the same as the previous year unless we have no unexpected downside.

Q. What is the balance of the sales between the first and second half of the internal plan for the China business?

A. We would say 45% for the first half and 55% for the second half. The reason why we estimate the second half heavier is because we will have Double Eleven festivals and launch new model of Nursing bottles.

Q. Can you give us the progress market penetration of Canada and US by Pigeon brands through China business?

A. We have not made much progress. We have not been in a situation to be able to be aggressive in our activities due to the impact of Covid-19. We can say that the progress of this project will not have much impact on the China business as we don’t include any numbers in the plan of this year.

[Singapore Business]

Q. Can you give us the update of Covid-19 in the territories of Singapore Business and any impact on your business activities?

A. The situation of Covid-19 in Q2 will be very difficult for each country covered by the Singapore business. Governments of Indonesia, India, Malaysia, and Thailand have begun to impose restrictions on activities, lockdowns, and movement restrictions, or plan to impose them in mid-May or late May.

However, in the previous fiscal year, the impact of Covid-19 in this region was actually greater in Q2 than Q1. In terms of Covid-19 situation, we would say that this Q1 actually faced a higher hurdle than the last Q1, and this Q2 would be similar to the last Q2. The good news is that lockdowns done by each country’s government might be different than the ones in the previous year. Not all stores will be closed and essential stores will be open. Also, we can carry out sales activities amid the pandemic in a better way in this year than the previous year. Our internal plan for this year is that the Covid-19 situation will be gradually getting better from 2H onward.

Our first priority is the health of our employees and their families. We are working to ensure that our business activities are as uninterrupted as possible, or supplemented by online services to minimize the interruption.

[Lansinoh Business]

Q. Can you give us the update by regions?

A. North America was the growth driver in this Q1. Sales in NA were up 5.3% YoY on a local currency basis. Germany and France were also performing well. On the other hand, China market has been tough time because the competition in the consumables category has become fiercer.

Q. Can you give us the update of Breast pumps?

A. Breast pumps grew around 3% in the Lansinoh business overall. The DME channel grew around 20% in this Q1 in North America though it was still small in size.

[END]