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# **5th Medium-Term Business Plan**

## **(February 2015 to January 2017)**

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- 1. Looking Back to the 4th Medium-Term Business Plan**
- 2. The 5th Medium-Term Business Plan: “Pigeon Way”**
- 3. Medium-Term Business Policy**
- 4. Business Strategy**
- 5. Functional Strategy**
- 6. Quantitative Targets**
- 7. Improvement of Enterprise Value**

# 1. Looking Back to the 4th Medium-Term Business Plan (1) Financial Targets

(¥ millions)	4th Medium-Term Business Plan	Jan. 2014 Result	Progress Status
<b>Net sales</b>	73,300	<b>77,465</b>	<b>105.7 %</b>
<b>Gross profit</b>	30,400	<b>34,464</b>	<b>113.4 %</b>
<b>Operating income</b>	7,300	<b>10,365</b>	<b>142.0 %</b>
<b>Ordinary income</b>	7,300	<b>11,002</b>	<b>150.7 %</b>
<b>Net income</b>	4,400	<b>6,985</b>	<b>158.8 %</b>
<b>EPS (¥)</b>	110	<b>174</b>	<b>158.2 %</b>
<b>Gross margin</b>	41.5 %	<b>44.5 %</b>	<b>+ 3.0 pt</b>
<b>Operating margin</b>	10.0 %	<b>13.4 %</b>	<b>+ 3.4 pt</b>
<b>Ordinary margin</b>	10.0 %	<b>14.2 %</b>	<b>+ 4.2 pt</b>
<b>Return on sales</b>	6.0 %	<b>9.0 %</b>	<b>+ 3.0 pt</b>
<b>ROA</b>	14.0 % or higher	<b>20.7 %</b>	<b>+ 6.7 pt</b>
<b>ROE</b>	14.0 % or higher	<b>19.7 %</b>	<b>+ 5.7 pt</b>

**Pace of growth and expansion is faster than our plan, and profitability has been enhanced.**

※EPS in the 4th Medium-Term Business Plan was preliminary calculated by employing the aggregate number of issued shares after the stock split.

※ ROA= Ordinary income ÷ Total assets; ROE = Net income ÷ Equity (in both cases, denominators are averaged between beginning and year-end figures)

# 1. Looking Back to the 4th Medium-Term Business Plan (2) by Segment

(¥ millions)	4th Medium-Term Business Plan			Jan. 2014 Result			Progress Status	
	Net Sales	% of Total	Gross Margin	Net Sales	% of Total	Gross Margin	Net Sales	Gross Margin
<b>Consolidated net sales</b>	73,300	100.0 %	41.5 %	<b>77,465</b>	<b>100.0 %</b>	<b>44.5 %</b>	<b>105.7 %</b>	<b>+3.0 pt</b>
<b>Domestic Baby and Mother Care Business</b>	26,460	36.1 %	45.6 %	<b>24,451</b>	<b>31.6 %</b>	<b>45.8 %</b>	<b>92.6 %</b>	<b>+0.2 pt</b>
<b>Child-rearing Support Services</b>	6,100	8.3 %	12.1 %	<b>6,599</b>	<b>8.5 %</b>	<b>11.5 %</b>	<b>108.2 %</b>	<b>(0.6) pt</b>
<b>Health Care and Nursing Care Business</b>	8,000	10.9 %	28.5 %	<b>6,721</b>	<b>8.7 %</b>	<b>29.8 %</b>	<b>84.0 %</b>	<b>+1.3 pt</b>
<b>Overseas Business</b>	31,680	43.2 %	48.2 %	<b>38,540</b>	<b>49.7 %</b>	<b>52.6 %</b>	<b>122.0 %</b>	<b>+4.4 pt</b>
<b>Other</b>	1,060	1.4 %	7.5 %	<b>1,151</b>	<b>1.5 %</b>	<b>20.5 %</b>	<b>108.7 %</b>	<b>+13.0 pt</b>

**There is divergence between the sales plan and actual sales of the Domestic Baby and Mother Care Business, and the Health Care and Nursing Care Business.**

## 1. Looking Back to the 4th Medium-Term Business Plan (3) by Overseas Region

(¥ millions)	4th Medium-Term Business Plan		Jan. 2014 Result		Progress Status
	Net Sales	% of Total	Net Sales	% of Total	
<b>Overseas Business</b>	31,680	43.2 %	<b>38,540</b>	<b>49.7 %</b>	<b>121.7 %</b>
<b>China (incl. Hong Kong)</b>	14,270	19.5 %	<b>22,417</b>	<b>28.9 %</b>	<b>157.1 %</b>
<b>Other Asia</b>	7,581	10.3 %	<b>6,125</b>	<b>7.9 %</b>	<b>80.8 %</b>
<b>North America</b>	4,874	6.6 %	<b>5,418</b>	<b>7.0 %</b>	<b>111.2 %</b>
<b>Middle East</b>	2,272	3.1 %	<b>2,118</b>	<b>2.7 %</b>	<b>93.2 %</b>
<b>Other</b>	2,683	3.7 %	<b>2,412</b>	<b>3.1 %</b>	<b>89.9 %</b>

**Continuous growth in China and North America,  
and slow growth pace in the other Asian regions**

## 2. 5th Medium-Term Business Plan: “Pigeon Way”

# Pigeon Way

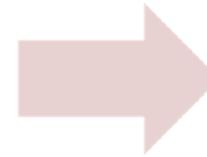
(Pigeon Way is a foundation of our minds and behaviors.)

**Corporate Philosophy: “Love”**  
**Credo: “Only love can beget love”**

**Mission**

**Values**

**Action Principles**



**Vision**

**Pursuing world class  
business excellence,  
think globally, plan agilely,  
and implement locally.**

### 1. Strengthening of Brand Power (The No.1 Baby Care Products Manufacturer in the World)

- Expansion of sales shares of baby bottles and baby bottle nipples in the major markets
- Gain of competitive advantage in the markets by developing new products on the basis of basic research and consumer behavior observation
- Strengthening of the global Pigeon brand

### 2. Strengthening of Management Structure for Sustainable Business Expansion

- Strengthening of the function of Global Head Office (GHO) to develop and execute the global-wide group strategies
- Establishment of organizational structure enabling prompt decision-makings and actions in each location
- Establishment of functional head office structure enabling to support each location from the viewpoint of total optimization

### 3. Enhancement of Management Quality by Focusing on Cash Flows

- Investment in new markets and business
- Improvement focusing on profitability and efficiency of the existing markets and business
- Improvement of CCC to maximize cash, enhancement of ROIC, and, more importantly, establishment of the “Global Cash Management”

※GHO: Global Head Office、 CCC : Cash Conversion Cycle, ROIC : Return On Invested Capital (NOPAT/Capital Invested, calculated with a tax rate of 40.7%)

#### 4. Development of Global Human Resources, Establishment of Global Personnel Management System, and Implementation of System to Facilitate Employees' Success

- Development of global human resources, execution of flexible personnel assignment, and establishment of global personnel management to realize the above.
- Cultivation of company culture allowing each employee to enhance productivity on each job, to feel “pride” in working at Pigeon and to continue to work at Pigeon for a long time.

#### 5. Further Improvement of Enterprise Value

- Further improvement of enterprise value by continuously providing the services and products that make customers smile.
- Efforts to bring smiles to all the stakeholder including our customers

**We will achieve “Vision 2016” within the years under the  
5th Medium-Term Business Plan**

#### **Markets in Focus**

**Entry into new markets and expansion of the shares by selecting important countries from the viewpoint of market potentials, as well as medium- and long-term perspectives**

#### **Five Priority Categories**

**Focus on the categories that Pigeon has “advantage”  
(baby bottles / baby bottle nipples, breast pumps, pacifiers, skincare products and breast pads)**

#### **Promotion Activities toward Hospitals and Maternity Hospitals**

**Synergy effect by combining horizontal development of promotion activities toward hospital and maternity hospitals with strengthening of brand power**

### Expansion of Business Scale

(1) Growth in Existing Categories

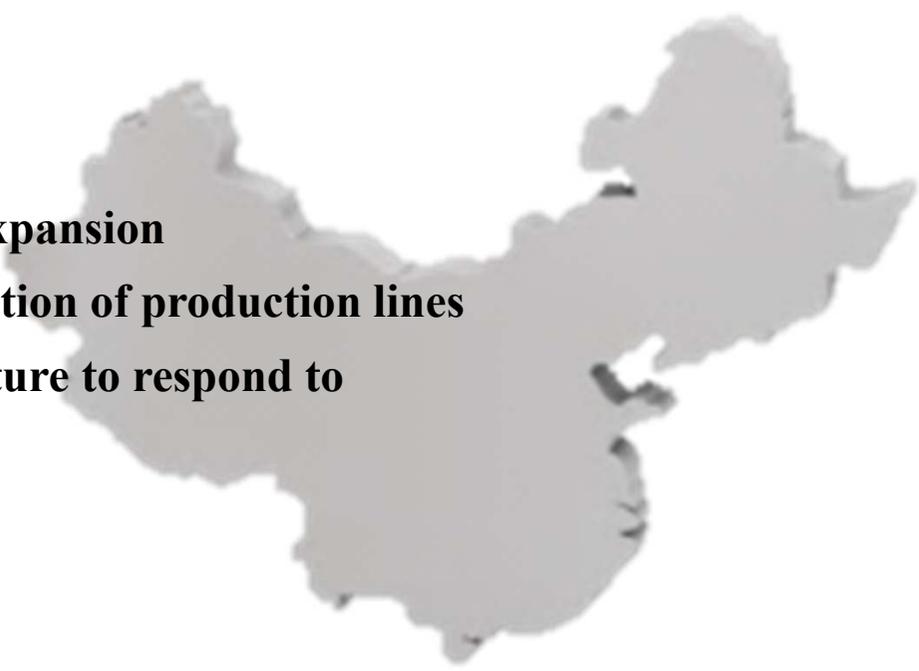


(2) Growth in New Products such as Baby Diaper



### Strengthening of Business Foundation

- (1) Capital investment to respond to business expansion
- (2) Cost reduction and stable supply by automation of production lines
- (3) Further improvement of organization structure to respond to business expansion



#### Strengthening of Brand Power as a Company Supporting Breast-Feed

- **Baby bottles: Introduction “NaturalWave” in the Europe and U.S. markets.**
- **Support of whole cycle of child rearing consisting of “milking → preserve → feeding”**
- **Strengthening of promotion activities toward hospitals / maternity hospitals**

#### Business Expansion in the U.S.



#### Business Expansion in Europe



#### Entry into the Latin America Markets

- **Collaboration of Pigeon and Lansinoh**



### Growth Driven by the Five Priority Categories

(Acceleration of strengthening and penetration of baby bottles / baby bottle nipples, breast pumps, pacifiers, skincare products and breast pads)

Acceleration of further strengthening and penetration of Pigeon Brand



### Enhancement of Profitability of Existing Business



### Establishment of Large Merchandise Business and Selection of New Entry Categories

Thanks to the newly mounted 3Mode Pad mechanism, the car seat can be adjusted in three ways to fit in baby's growth.



Mahalo laule'a  
マハロ ラウレア

赤ちゃんもママも笑顔のMyスタイル。



## Establishment of Business Model for Elderly Healthcare Business

- Strengthening of sales in care facility channel
- Growth both in facility and existing channels by marketing products with competitive superiority
- Further enhancement of care service quality



### Further Enhancement of Business Quality for Stable Growth

#### Enhancement of Management Quality

- Specialized child care services responding to personality of each child
- Efforts to provide more safe and more assuring operation system



#### Development of High-Quality Human Resources for Child Caring

- Further evolution of “Pigeon Heartner College”



## Research and Development

### Full Understanding of Customers' Preference

- Deepening of "Baby Theory" Research
- Understanding of Customers' Insight
- Improvement of Ability to Commercialize the Products



The "key to success" in behavior observation is to provide the space where both babies and mothers can spend time comfortably without feeling any stress.



### Establishment and Strengthening of Global Development System

- Functions for Research, Planning and Development



## Quality Control

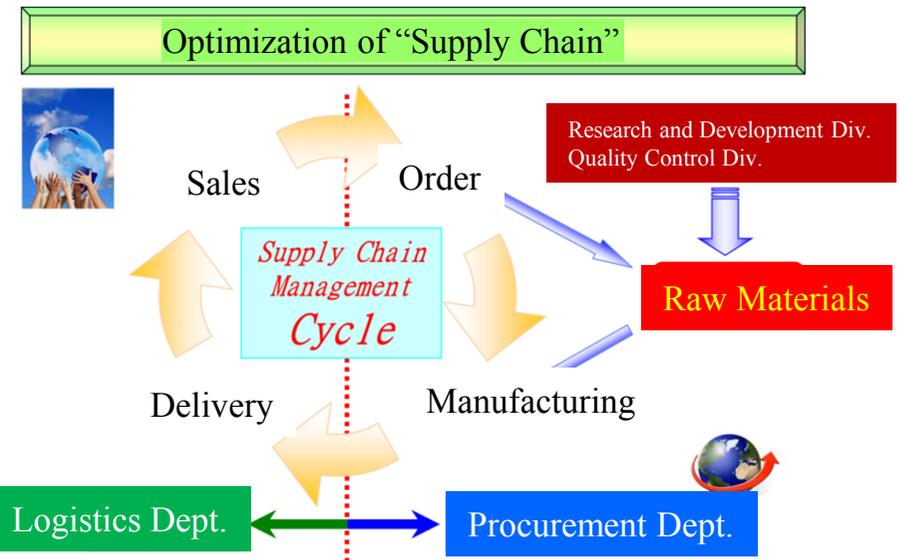
### Strengthening of Quality Control Function at Each Location

- Establishment of PPM System  
 ※PPM: Pigeon Productive Management

## Manufacturing, Procurement and Distribution

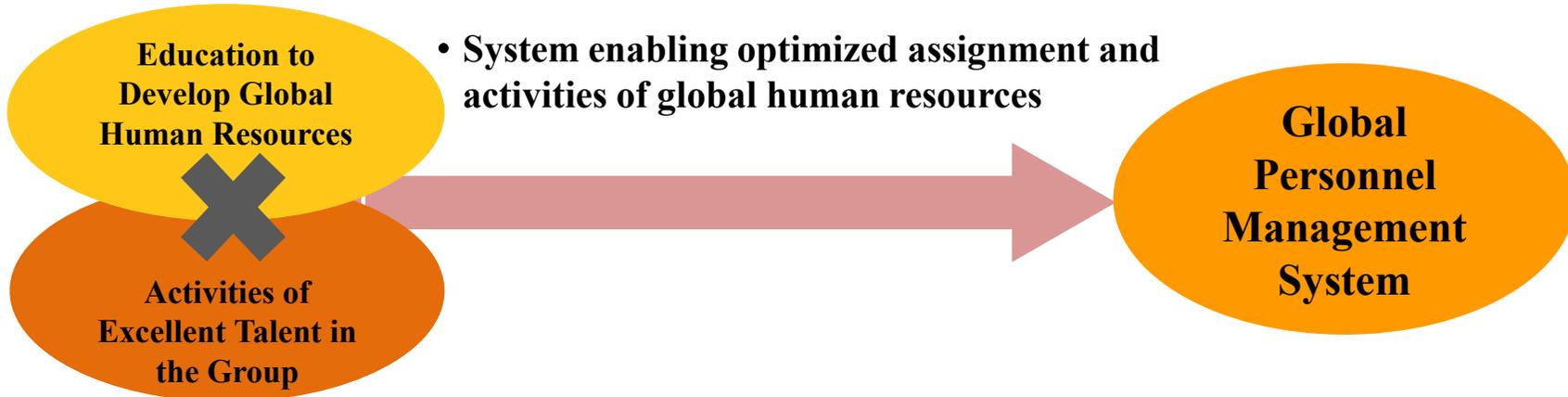
### Establishment of Global SCM System

※SCM: Supply Chain Management



### Global Personnel Management System

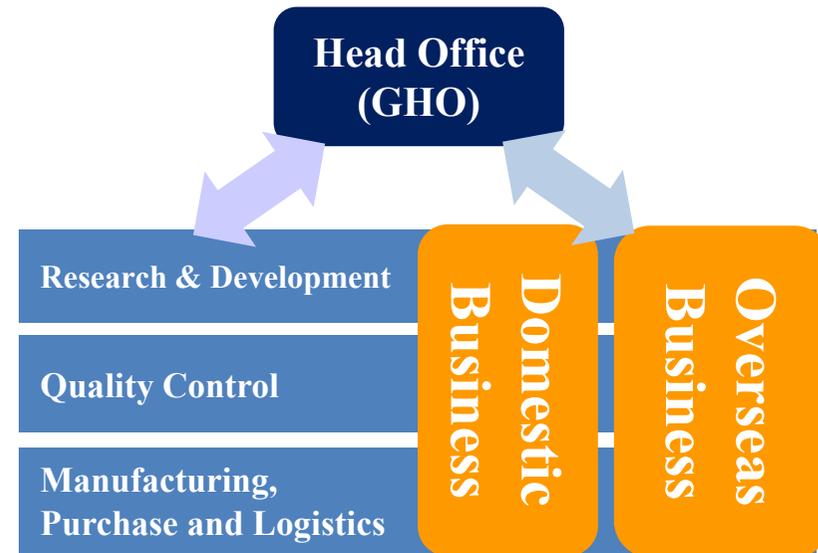
Development of human resources who are able to success in the global stages



### Global Head Office

Strengthening of Corporate Center Function

- Strengthening of functions for development and planning of Group strategies
- Establishment of PDCA cycle with KPI (CCC, ROIC, etc.)
- Strengthening of financial standings with GCMS
- Strengthening of compliance, social responsibility and ability to execute strategies



※KPI: Key Performance Indicator, GCMS : Global Cash Management System

※ CCC: Cash Conversion Cycle, ROIC: Return On Invested Capital (NOPAT/Capital Invested, calculated with a tax rate of 40.7%)

## 6. Quantitative Targets (1) Financial Targets

(¥ millions)	Jan. 2014 Result	Jan. 2015 Plan	Jan. 2016 Plan	Jan. 2017 Plan	Growth Rate (Jan. 2014 vs. Jan. 2017)
<b>Net sales</b>	77,465	<b>84,500</b>	<b>92,500</b>	<b>100,000</b>	<b>129.1 %</b>
<b>Gross profit</b>	34,464	<b>37,400</b>	<b>40,700</b>	<b>44,200</b>	<b>128.2 %</b>
<b>Operating income</b>	10,365	<b>11,600</b>	<b>13,000</b>	<b>15,000</b>	<b>144.7 %</b>
<b>Ordinary income</b>	11,002	<b>11,800</b>	<b>13,000</b>	<b>15,000</b>	<b>136.3 %</b>
<b>Net income</b>	6,985	<b>7,300</b>	<b>8,000</b>	<b>9,000</b>	<b>128.8 %</b>
<b>EPS (¥)</b>	174	<b>182</b>	<b>199</b>	<b>224</b>	
<b>Gross margin</b>	44.5 %	<b>44.3 %</b>	<b>44.0 %</b>	<b>44.2 %</b>	
<b>Operating margin</b>	13.4 %	<b>13.7 %</b>	<b>14.1 %</b>	<b>15.0 %</b>	
<b>Ordinary margin</b>	14.2 %	<b>14.0 %</b>	<b>14.1 %</b>	<b>15.0 %</b>	
<b>Return on sales</b>	9.0 %	<b>8.6 %</b>	<b>8.6 %</b>	<b>9.0 %</b>	

	Jan. 2014 Result	5th Medium-Term Business Plan
<b>ROA</b>	20.7 %	<b>22.0 % or higher</b>
<b>ROE</b>	19.7 %	<b>21.0 % or higher</b>
<b>ROIC</b>	14.2 %	<b>15.0 % or higher</b>

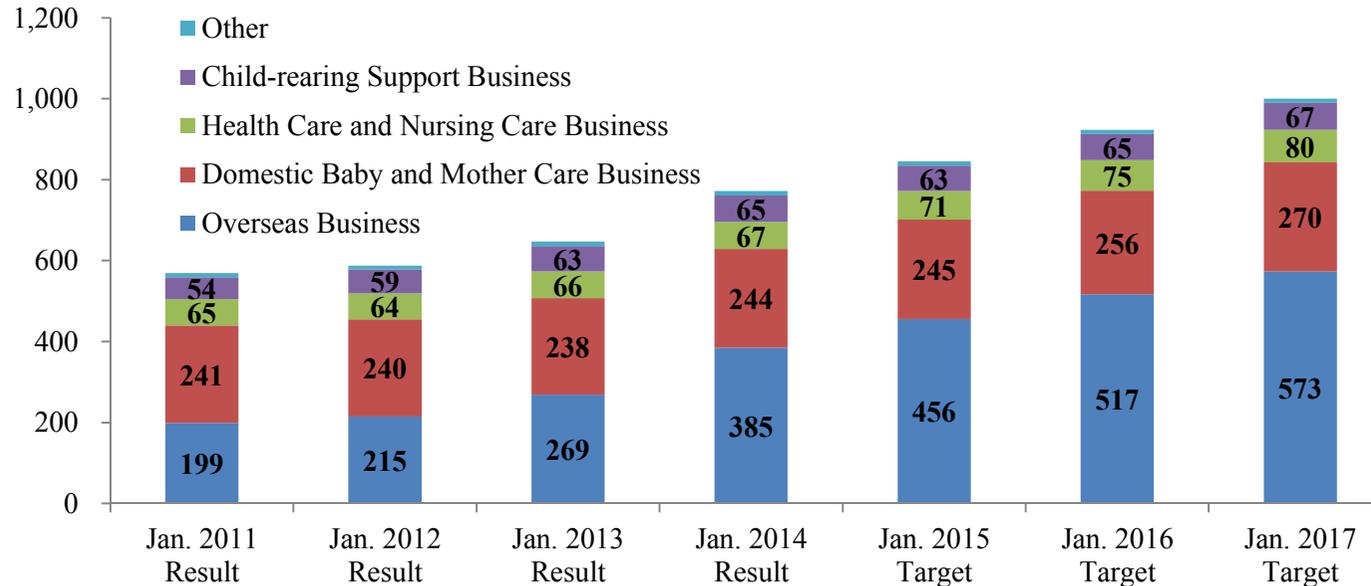
※ ROA= Ordinary income ÷ Total assets; ROE = Net income ÷ Equity (in both cases, denominators are averaged between beginning and year-end figures)

※ROIC: Return On Invested Capital (NOPAT/Capital Invested, calculated with a tax rate of 40.7%)

# 6. Quantitative Targets (2) Sales & Operating Income by Segment

(¥ millions)	Jan. 2014 Result			Jan. 2015	Jan. 2016	Jan. 2017			Growth Rate (Jan. 2014 vs. Jan. 2017)
	Net Sales	% of Total	Gross Margin	Net Sales	Net Sales	Net Sales	% of Total	Gross Margin	
<b>Consolidated net sales</b>	77,465	100.0 %	44.5 %	<b>84,500</b>	<b>92,500</b>	<b>100,000</b>	<b>100.0 %</b>	<b>44.2 %</b>	<b>129.1 %</b>
<b>Domestic Baby and Mother Care Business</b>	24,451	31.6 %	45.8 %	<b>24,500</b>	<b>25,690</b>	<b>27,000</b>	<b>27.0 %</b>	<b>45.3 %</b>	<b>110.4 %</b>
<b>Child-rearing Support Services</b>	6,599	8.5 %	11.5 %	<b>6,300</b>	<b>6,555</b>	<b>6,700</b>	<b>6.7 %</b>	<b>12.7 %</b>	<b>101.5 %</b>
<b>Health Care and Nursing Care Business</b>	6,721	8.7 %	29.8 %	<b>7,100</b>	<b>7,555</b>	<b>8,000</b>	<b>8.0 %</b>	<b>33.6 %</b>	<b>119.0 %</b>
<b>Overseas Business</b>	38,540	49.7 %	52.6 %	<b>45,600</b>	<b>51,700</b>	<b>57,300</b>	<b>57.3 %</b>	<b>49.1 %</b>	<b>148.7 %</b>
<b>Other</b>	1,151	1.5 %	20.5 %	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1.0 %</b>	<b>12.4 %</b>	<b>86.9 %</b>

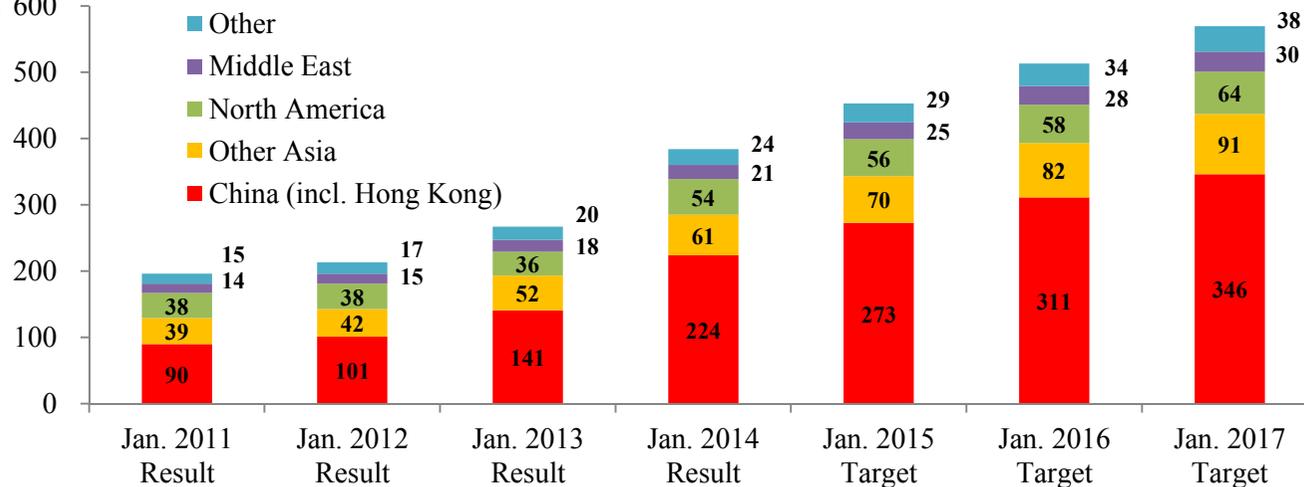
(Net Sales, Unit: ¥100 million)



## 6. Quantitative Targets (3) Sales by Overseas Region

(¥ millions)	Jan. 2014 Result		Jan. 2015	Jan. 2016	Jan. 2017		Growth Rate (Jan. 2014 vs. Jan. 2017)
	Net Sales	% of Total	Net Sales	Net Sales	Net Sales	% of Total	
<b>Overseas Business</b>	38,540	49.7 %	45,600	51,700	57,300	57.3 %	148.7 %
<b>China (incl. Hong Kong)</b>	22,417	28.9 %	27,319	31,195	34,694	34.7 %	154.8 %
<b>Other Asia</b>	6,125	7.9 %	7,014	8,258	9,181	9.2 %	149.9 %
<b>North America</b>	5,418	7.0 %	5,694	5,850	6,418	6.4 %	118.4 %
<b>Middle East</b>	2,118	2.7 %	2,547	2,870	3,072	3.1 %	145.1 %
<b>Other</b>	2,412	3.1 %	2,985	3,479	3,882	3.9 %	161.0 %

(Net Sales, Unit: ¥100 million)



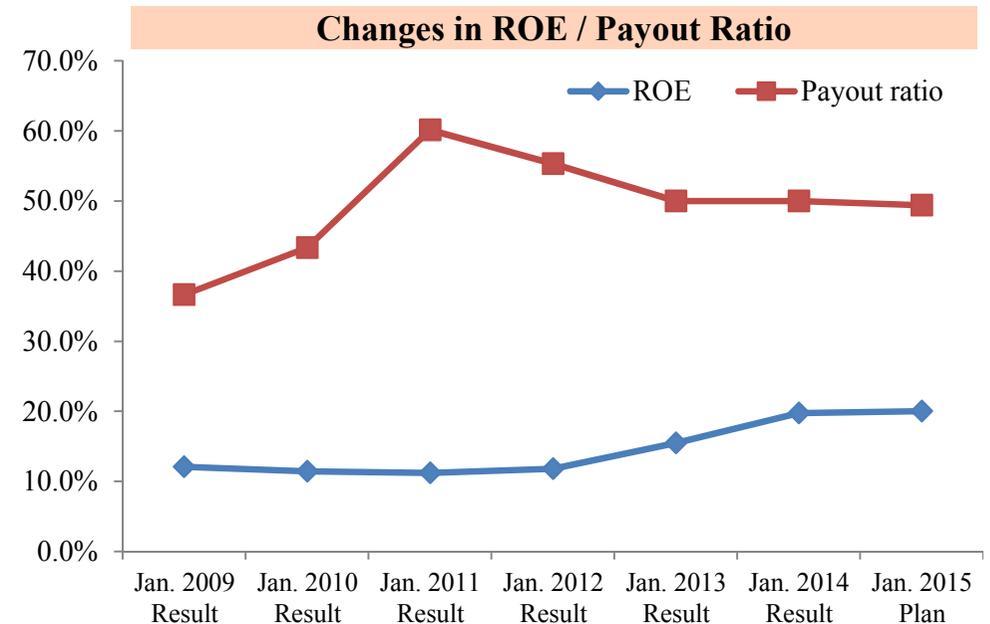
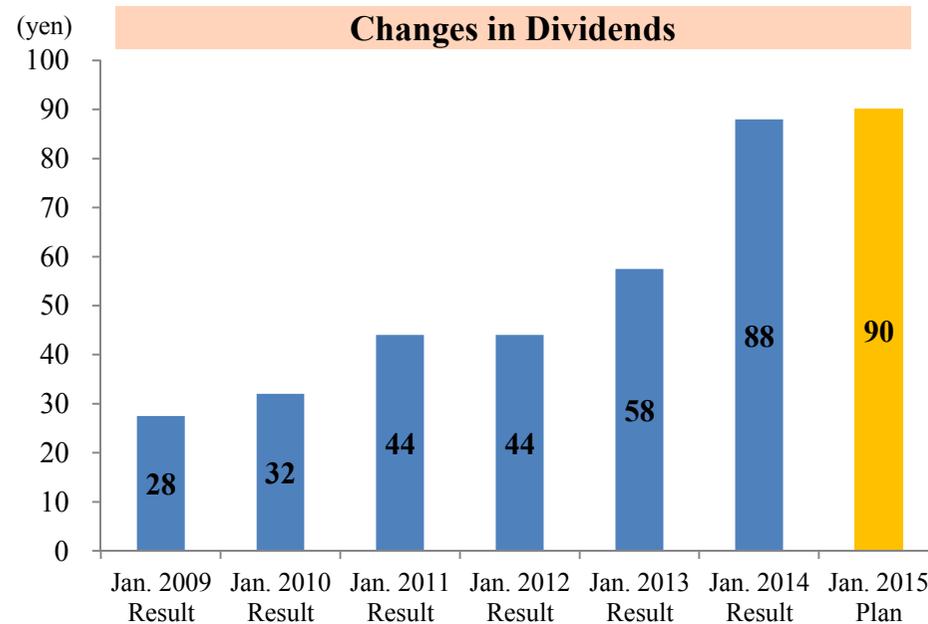
# 7. Improvement of Enterprise Value (1) Capital Strategies; Shareholder Return

- **Expected Increase in Operating Cash Flow: Approx. 27 Billion Yen**
- **Active Capital Investment for Future Growth**

**Breakdown of Planned Investment (Total Amount in 3 Years: Approx. 15 Billion Yen)**

**Overseas Business: Approx. 11.5 Billion Yen      Domestic Business: Approx. 3.5 Billion Yen**

- **Targeting Dividend Increase in Each Business Period comparing to Previous Period and Shareholder Return Ratio of 45% to 50%**
- **Return On Equity (ROE): 21.0% or More**
- **Return On Invested Capital (ROIC): 15.0% or More (Target Value)**
- **Increase in Earnings per Share Driven by Increase in Revenues**



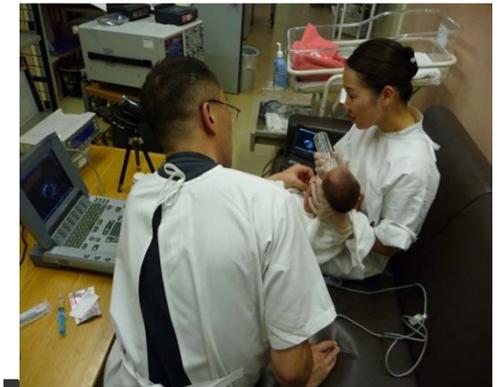
\*1 Stock Splitting in the fiscal year ended Jan. 2014 (August 1)  
The values for Jan. 2009 to Jan. 2014 were calculated by employing the share numbers after the splitting.

※ROIC: Return On Invested Capital (NOPAT/Capital Invested, calculated with a tax rate of 40.7%)

# 7. Improvement of Enterprise Value (2) CSR

**Pigeon Group thinks that our business activities have the aspect of CSR on their own, and based on this way of thinking, we will continue to contribute to society and environment not only in Japan, but also in overseas countries.**

across the border



**Raising Children, Raising Trees: the Spirit is the Same**  
We think that raising children and farming trees is similar to each other, because both humans and trees grow with warmth and affection of people around them. For this reason, Pigeon has continued the activity to plant trees from 1987.



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# Forecasts for Term Ending Jan. 2015

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# Jan. 2014 Results and Jan. 2015 Forecast (Consolidated)

(¥ millions)	Jan. 2014			Jan. 2015		
	Amount	% of Total	YoY Change	Forecast	% of Total	YoY Change
<b>Net sales</b>	77,465	100.0 %	119.0 %	<b>84,500</b>	<b>100.0 %</b>	<b>109.1 %</b>
<b>Operating income</b>	10,365	13.4 %	146.3 %	<b>11,600</b>	<b>13.7 %</b>	<b>111.9 %</b>
<b>Ordinary income</b>	11,002	14.2 %	148.9 %	<b>11,800</b>	<b>14.0 %</b>	<b>107.3 %</b>
<b>Net income</b>	6,985	9.0 %	152.7 %	<b>7,300</b>	<b>8.6 %</b>	<b>104.5 %</b>
<b>Net assets</b>	39,981	—	123.5 %	<b>41,738</b>	—	<b>104.4 %</b>
<b>Total assets</b>	57,955	—	119.4 %	<b>65,342</b>	—	<b>112.7 %</b>
<b>EPS (¥)</b>	174.53	—	152.7 %	<b>182.38</b>	—	<b>104.5 %</b>
<b>BPS (¥)</b>	977.50	—	123.5 %	<b>1018.37</b>	—	<b>104.2 %</b>
<b>ROA</b>	20.7 %	—	—	<b>19.1 %</b>	—	—
<b>ROE</b>	19.7 %	—	—	<b>18.3 %</b>	—	—

※ ROA= Ordinary income ÷ Total assets; ROE = Net income ÷ Equity (in both cases, denominators are averaged between beginning and year-end figures)

# Results and Forecast by Segment (Consolidated)

(¥ millions)	Jan. 2014				Jan. 2015				
	Amount	% of Total	Gross Margin	Segment Income	Amount	% of Total	YoY Change	Gross Margin	Segment Income
<b>Consolidated net sales</b>	77,465	100.0 %	44.5 %	10,365	<b>84,500</b>	<b>100.0%</b>	<b>109.1%</b>	<b>44.3%</b>	<b>11,600</b>
<b>Domestic Baby and Mother Care Business</b>	24,451	31.6 %	45.8 %	3,411	<b>24,500</b>	<b>29.0%</b>	<b>100.2%</b>	<b>45.4%</b>	<b>3,653</b>
<b>Child-rearing Support Services</b>	6,599	8.5 %	11.5 %	176	<b>6,300</b>	<b>7.5%</b>	<b>95.5%</b>	<b>11.7%</b>	<b>188</b>
<b>Health Care and Nursing Care Business</b>	6,721	8.7 %	29.8 %	212	<b>7,100</b>	<b>8.4%</b>	<b>105.6%</b>	<b>30.7%</b>	<b>284</b>
<b>Overseas Business</b>	38,540	49.8 %	52.6 %	10,172	<b>45,600</b>	<b>54.0%</b>	<b>118.3%</b>	<b>51.3%</b>	<b>11,910</b>
<b>Other</b>	1,151	1.5 %	20.5 %	204	<b>1,000</b>	<b>1.2%</b>	<b>86.8%</b>	<b>11.5%</b>	<b>93</b>

※Segment income in consolidated amount (all unclassifiable operating expenses) has been adjusted and posted as operating income in the consolidated statements of income

※Assumed exchange rates of Overseas Business: US\$1 = ¥100.00 ; 1 yuan = ¥16.50

# Key Priorities for the Year to Jan. 2015

## ● Domestic Baby and Mother Care Business

- Steady growth of large merchandise business by launch of new products
- Stronger emphasis on the maternity classes
- Improvement of profitability of the existing business by managing selling, general and administrative expenses in an effective and efficient manner

## ● Child-rearing Support Services

- Further improvement in child-rearing quality, improvement of operating revenue

## ● Health Care and Nursing Care Business

- Strengthening of marketing activities based on the facilities' routes, maintenance of the functionality of sales and marketing
- Increase in operating profits by establishment of an efficient business operation structure (reduction in selling, general and administrative expenses).

## ● Overseas Business

- China: stable growth of the new businesses (Baby diapers, Baby food)
  - Further strengthening of brand penetration and promotion activities toward hospitals
  - Tight control over the production costs and creation of organization of stable supply
- Europe and America: secure success in baby bottles and nipples business and continuous growth of the sales of existing products
- Market expansion: activities paving the way for advancement into the Brazilian market

# Shareholder Return and Investment-Related Indicators

[Shareholder return indicators under 5th Medium-Term Business Plan]

Adopt flexible approach to upgrading shareholder return (incl. through share buybacks), aiming at a goal of increasing dividends compared with the previous term and of the total shareholder return ratio by approximately 45 to 50% in each business term.

Dividend Status	Jan. 2012		Jan. 2013		Jan. 2014		Jan. 2015	
	Interim (Result)	Year-End (Result)	Interim (Result)	Year-End (Result)	Interim (Result)	Year-End (Plan)	Interim (Plan)	Year-End (Plan)
Dividend per share (yen)	44 (22)	44 (22)	44 (22)	71 (35.5)	66 (33)	55	45	45
Payout ratio	55.3%		50.3%		50.4%		49.3%	

※The Group conducted a stock split at the ratio of 2 shares for every 1 share of common shares. The effective date of the stock split was August 1, 2013. The values given in the parentheses for dividend per share above are reference values converted based on the number of shares after the stock split.

## [Reference] Capital expenditure indicators

(¥ millions)	Jan. 2013		Jan. 2014		Jan. 2015
	Interim (Result)	Year-End (Result)	Interim (Result)	Year-End (Result)	Year-End (Plan)
Capital expenditure (※1)	872	1,868	2,092	3,091	4,503
Depreciation (※2) (tangible fixed assets)	681	1,426	733	1,663	2,177

※1 Refers to purchase of tangible fixed assets

※2 Refers to total R&D expenditures, including personnel-related

# Corporate Overview

## PIGEON CORPORATION

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Due to various factors, actual results may differ significantly from those anticipated in this document.