



Results Briefing for The Six Months Ended July 31, 2017

September 5, 2017

PIGEON CORPORATION

(Securities code: 7956)

President & COO

Shigeru Yamashita

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Business Results at July 31, 2017

Financial Highlights (Consolidated)



(millions of yen)	Jul. 2016		Jul. 2017	
	Results	YoY Change	Results	YoY Change
Net Sales	46,302	99.5%	49,048	105.9%
Operating Income	7,777	100.6%	9,296	119.5%
Ordinary Income	7,671	97.4%	9,380	122.3%
Net Income Attributable to Owners of Parent	5,545	105.0%	6,493	117.1%
Net Assets	48,870	96.3%	56,779	116.2%
Total Assets	71,494	93.7%	75,437	105.5%
EPS (¥)	46.30	105.0%	54.22	117.1%
BPS (¥)	398.71	96.3%	462.27	115.9%
ROE *	22.8%	—	24.1%	—
ROIC *	19.5%	—	22.4%	—

*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 30%, Capital Invested is averaged between beginning and year-end figures)

Statement of Income (Consolidated)



(millions of yen)	Jul. 2016		Jul. 2017			
	Results	% of Total	Results	% of Total	YoY Change	Remarks
Net Sales	46,302	100.0%	49,048	100.0%	105.9%	
Cost of Sales	24,743	53.4%	25,277	51.5%	102.2%	■ Main Changes in SG&A expenses
Gross Profit	21,559	46.6%	23,770	48.5%	110.3%	Personal Expenses + 106 million yen
SG&A Expenses	13,781	29.8%	14,474	29.5%	105.0%	Sales Promotion (merchandising) + 185 million yen
Operating Income	7,777	16.8%	9,296	19.0%	119.5%	
Non-Operating Income (Expenses)	(106)	—	83	0.2%	—	Rents + 100 million yen
Ordinary Income	7,671	16.6%	9,380	19.1%	122.3%	Advertising + 60 million yen
Extraordinary Income (Loss)	52	0.1%	47	0.1%	89.1%	
Net Income Attributable to Non-controlling Interests	110	0.2%	110	0.2%	99.8%	
Net Income Attributable to Owners of Parent	5,545	12.0%	6,493	13.3%	117.1%	

Net Sales by Business Segment (Consolidated)



(millions of yen)	Jul. 2016				Jul. 2017				
	Results	% of Total	Gross Margin	Segment Profit (ADJ)	Results	% of Total	YoY Change	Gross Margin	Segment Profit
Consolidated Net Sales	46,302	100.0%	46.6%	7,777	49,048	100.0%	105.9%	48.5%	9,296
Domestic Baby & Mother Care Business	16,365	35.3%	46.3%	2,503	17,302	35.3%	105.7%	48.8%	3,058
Child Care Service Business	3,652	7.9%	10.4%	80	3,759	7.7%	102.9%	10.0%	81
Health & Elder Care Business	3,537	7.6%	31.7%	278	3,446	7.0%	97.4%	31.3%	244
Overseas Business	11,079	23.9%	56.3%	2,346	12,043	24.6%	108.7%	56.1%	2,926
China Business	13,741	29.7%	43.7%	3,779	15,198	31.0%	110.6%	46.5%	4,414
Elimination of internal trading between segments	(2,722)	(5.9%)	—	—	(3,355)	(6.8%)	—	—	—
Other	647	1.4%	15.7%	84	653	1.3%	100.9%	12.9%	65

※ Starting from the current fiscal year, non-allocable operating expenses associated with the R&D Department, which had previously been included in the Adjustments section, have been reflected in segment profit of each reportable segment. Accordingly, the figures for the same period of the previous year have been adjusted in accordance with the calculation method after the above revision.

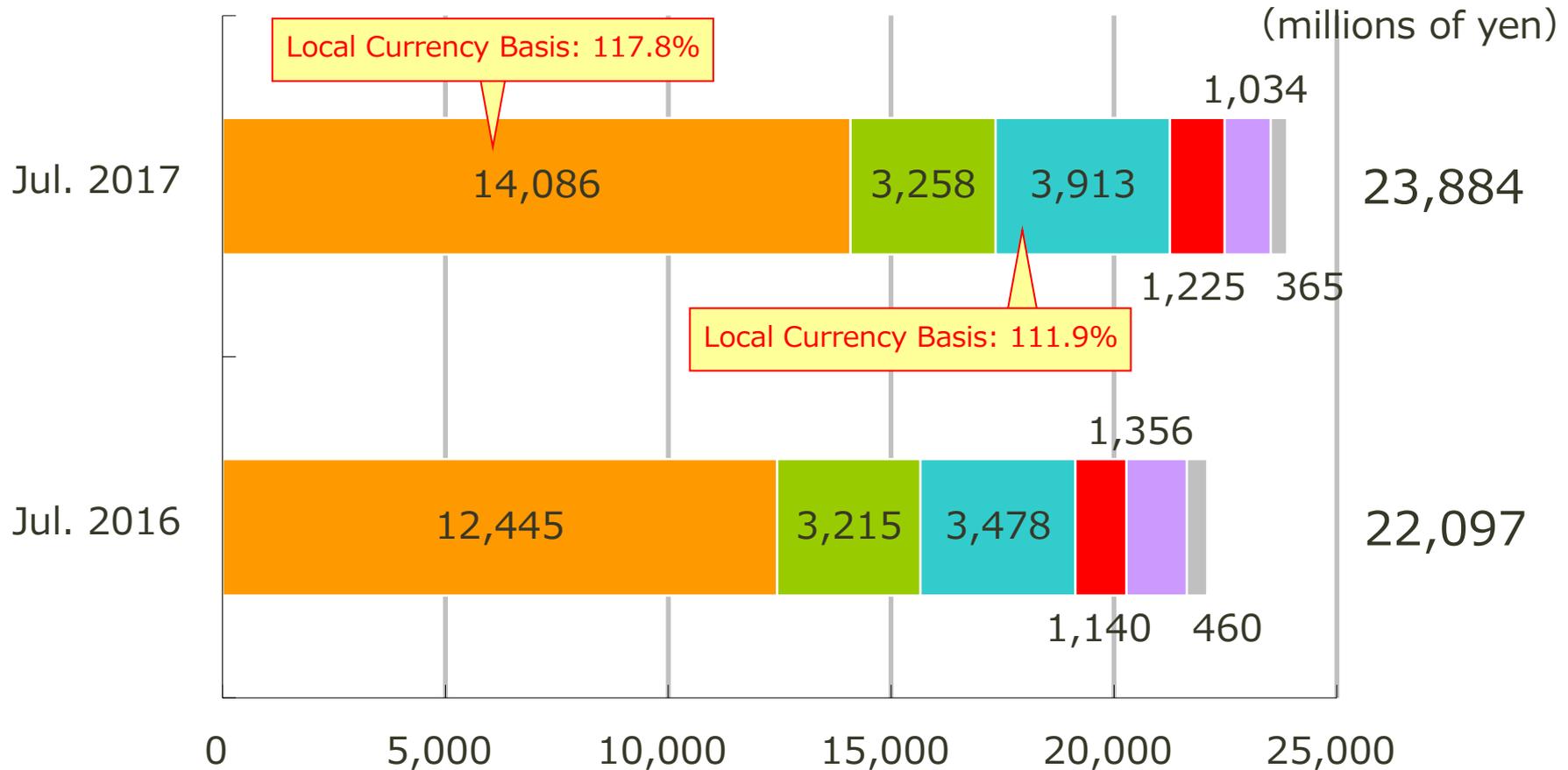
※ Segment profit on a consolidated basis has been adjusted (by deducting non-allocable operating expenses) to be equal to operating income in the consolidated statement of income.

※ Consolidated net sales have been presented after eliminating intersegment transactions of the Overseas Business and the China Business.

Overseas Business Sales by Region



- China (incl. Hong Kong)
 ■ Other Asian Countries
 ■ North America
- Europe
 ■ Near and Middle East
 ■ Other Regions



* [Currency Rates] Jul. 2017: US\$1 = ¥112.33 1yuan = ¥16.38; Jul. 2016: US\$1 = ¥111.69 1yuan = ¥17.05

● Domestic Baby & Mother Care Business

- Strengthening six key product categories
 - Implementing comprehensive measures against competing products to sustain the present high market share in the nursing bottle/nipple category
 - Implementing measures and making necessary investments to sustain the present high market share in the breast pump category
- Implementing aggressive sales, marketing and investing activities to increase the market share of the baby strollers and other large-sized products (market share target: 16%)
- Getting more involved in promotional activities to achieve collaboration with healthcare professionals



● Child Care Service Business

- Clarify the positioning of business and streamlining business operations leading to improved profitability
- Secure quality of child-rearing service by improving employee's compensation and by securing and training child-rearing staff
- Further strengthening safety measures including reinforcement of crisis management

● Health & Elder Care Business

- Achieving growth by streamlining and strengthening the sales and distribution network
- Developing concepts and ideas of products to support the in-house care through working with professionals at care facilities
- Improving profitability by more efficient business system

● Overseas and China Businesses

(common issues)

- Reinforcement of six key product categories
 - Further increasing the market share of the nursing bottles/nipples category
 - Implementing measures to expand the breast pump category



● Overseas Business (except China)

- Aggressively expanding Lansinoh (particularly in the European market) with improved profitability
- Expanding business in India and improving profitability primarily through improvement in capacity utilization rate
- Exploring feasibility of entering new markets including countries in Africa to achieve growth for the next MTBP period and onwards

● China Business

- Sustaining the high growth rate by taking advantage of the expansion of purchasing population
- Rebuilding of sales/distribution system in response to developments in EC channel
- Ensuring growth of the disposable diaper categories



<China>
E-Commerce

Domestic Baby & Mother Care Business Status



● Baby related Large-sized products

- Renewed and released the A-type baby stroller- “Runfee”
- Newly released the B-type baby stroller- “Bingle”, and other models
- Our share in the baby stroller market increased to a record high 17.4% (in July 2017)



Runfee

Bingle

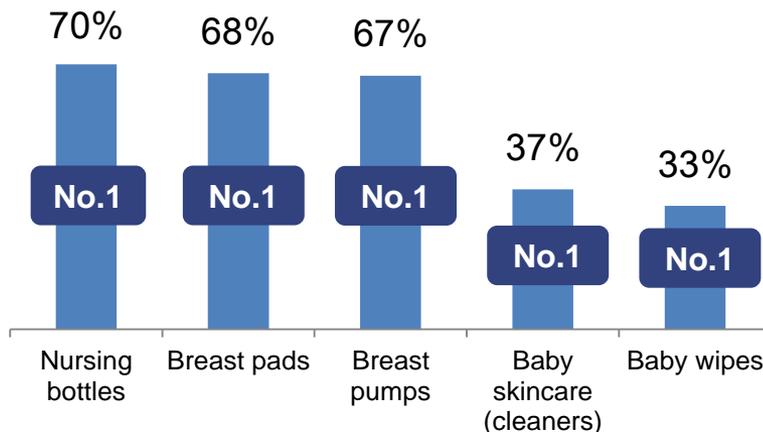
● New products

- Released “Petit Ice Cream for Babies,” the first-in-the-industry homemade ice cream exclusively for babies;
- “Moisture Bodycare Cream” for pregnant women; and other products

● Direct communication

- Pregnancy information events: 9 events/600 participants
- Seminars for health care professionals: 10 events/1,000 participants

Market share (1st half of FY2017)



Major new products to be released in the fall of 2017 (2nd half of FY2017)



Baby Milk Lotion
Moisture Plus



Tablet U
Xylitol + Fluorine

Child Care Service Business / Health & Elder Care Business Status



Child Care Service Business

● Pigeon Hearts

- New additions of facilities under management:
 - Launched three in-company child-care facilities
 - Total of 53 facilities (excluding those of the National Hospital Organization)

Health & Elder Care Business



● Pigeon Tahira

- Reported strong sales of “Bottom Wipes” and a line of oral cavity nursing care products – the main product categories
- Strengthened activities to increase retail sales by conveying product benefits

● Pigeon Manaka

- Expanded local community-oriented day care services



※Proposal Material by Sales Team



Conveying product benefits of nursing care products



New in-company child-care facilities

● European and North American Markets

■ North America:

Reported strong sales of electric breast pumps under distribution through the new channel. Continued to gain top share in categories: nipple care cream, breast pad, breast milk storage bags.

■ Europe:

Enjoyed a high capacity utilization rate at a new factory in Turkey that started production in Jan 2017.

Continued to gain top share in Germany in categories: nipple care cream, breast pad and breast milk storage bags.

● Asian markets

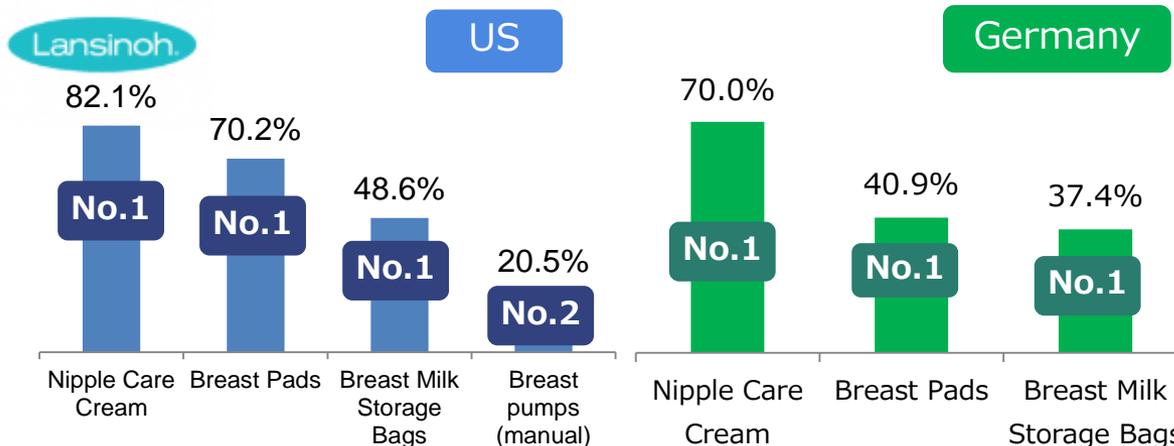
■ **India:** Expanded a coverage of drug stores and improved a capacity utilization rate.

■ **Singapore:** Strengthen brand power within the territory and increased sales of key category products.

■ **Indonesia:** Arranged to make the company into a subsidiary (in November, 2017)

■ **Lansinoh China:** Reported strong sales through EC channels, (which accounted for 87.4% in total sales)

Market share (1st half of FY2017)



Lansinoh Market Status



● About Product Sales

- Continued to report strong sales of key category products including nursing bottles/nipples, pacifiers and breastfeeding-related products.
- New products: Released 31 SKUs of Disney series products (incl. nursing bottles, pacifiers and cups) in May.
- Increased sales of disposable diapers by continuing to run the in-store promotional campaign (across China) and strengthening sales through EC channels.
- Strengthened sales through EC channels, which accounted for 43% in total sales, (up 3 percentage points from the end of FY2016).

● Branding and breastfeeding awareness programs

- Further strengthened the branding activities by changing the design of Pigeon Corner to be consistent with the Global Brand Style Guidelines.
- Promoted direct communications with consumers primarily through the web and SNS.
- Continued to implement the breastfeeding awareness program promoted jointly with the Ministry of Health of China primarily through establishing breastfeeding consultation offices, presenting at academic conferences, and organizing child-rearing seminars.



In-store promotion for disposable diapers



Breastfeeding rooms in China

<Ref.> Consolidated Balance Sheet (Highlights)

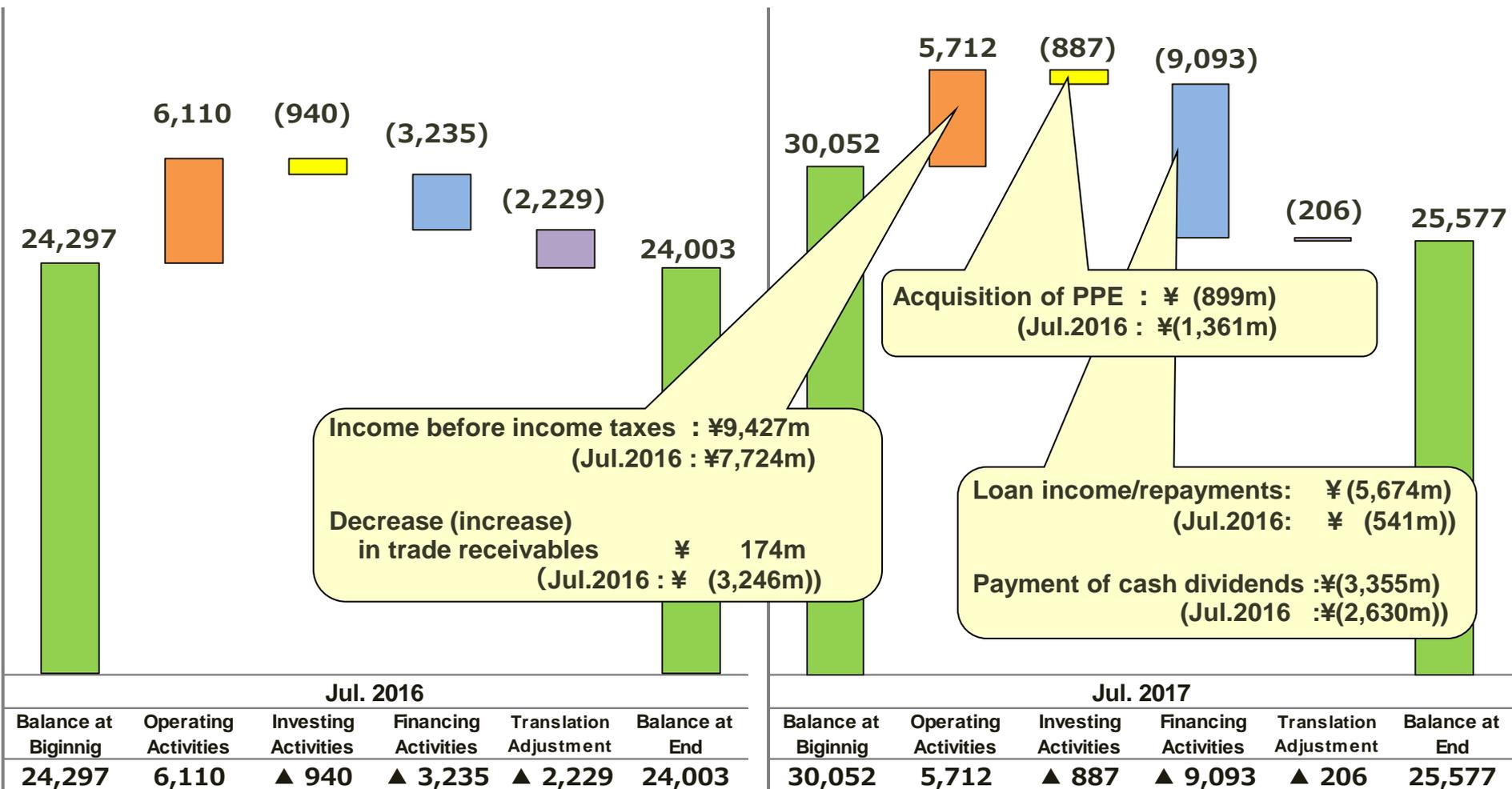


(millions of yen)	Jan. 2017	Jul. 2017		
	Results	Results	YoY Change (Amount)	YoY Change (%)
Cash and Deposits	30,052	25,577	(4,474)	85.1%
Notes and Accounts Receivable	16,103	15,725	(377)	97.7%
Inventories	7,603	9,041	1,438	118.9%
Notes and Accounts Payable	4,857	4,713	(144)	97.0%
Electronically Recorded Obligations – Operating	1,693	2,150	457	127.0%
Borrowings	5,699	—	(5,699)	—
Net Assets	53,736	56,779	3,042	105.7%
Total Assets	78,889	75,437	(3,451)	95.6%
Equity Ratio	66.4%	73.4%	—	7.0pt

<Ref.>Cash Flow



(millions of yen)



<Ref.> Investment-Related Indicators (Consolidated)

(millions of yen)	FY Jan. 2017		FY Jan. 2018	
	Interim (Results)	Full Year (Results)	Interim (Results)	Full Year (Forecast)
Capital Investment (※ 1)	1,250	2,498	1,252	3,700
Depreciation (※ 2)	1,191	2,357	1,206	2,400
Research and Development (※ 3)	1,085	2,263	1,221	2,500

- ※ 1 Property, plant and equipment and intangible assets (including long-term prepaid expense)
- ※ 2 Depreciation (including amortization of goodwill)
- ※ 3 Total amount of expenses incurred for research and development activities including personnel expenses

FY Jan. 2018 Full-Year Performance Forecasts

Jan. 2017 Results and Jan. 2018 Forecast (Consolidated)



(millions of yen)	FY Jan. 2017			FY Jan. 2018 (Change of Forecast)				
	Results	% of Total	YoY Change	Plan	Forecast	% of Total	YoY Change	vs Plan
Net Sales	94,640	100.0%	102.6%	99,800	101,200	100.0%	106.9%	101.4%
Operating Income	16,015	16.9%	110.3%	17,000	18,700	18.5%	116.8%	110.0%
Ordinary Income	16,462	17.4%	109.2%	17,000	18,600	18.4%	113.0%	109.4%
Net Income Attributable to Owners of Parent	11,118	11.8%	109.0%	11,800	13,000	12.9%	116.9%	110.2%
Net Assets	53,736	—	105.8%	58,830	61,171	—	113.8%	104.0%
Total Assets	78,889	—	106.7%	78,984	82,147	—	104.1%	104.0%
EPS (¥)	92.84	—	109.2%	98.53	108.55	—	116.9%	110.2%
BPS (¥)	437.43	—	105.7%	479.12	498.66	—	114.0%	104.1%
ROE*	21.8%	—	—	21.5%	23.2%	—	—	—
ROIC*	19.2%	—	—	19.9%	21.7%	—	—	—

*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 30%, Capital Invested is averaged between beginning and year-end figures)

Results and Forecast by Segment (Consolidated)



(millions of yen)	FY Jan. 2017				FY Jan. 2018 (Change of Forecast)				
	Results	% of Total	Gross Margin	Segment Profit (ADJ)	Results	% of Total	YoY Change	Gross Margin	Segment Profit
Consolidated Net Sales	94,640	100.0%	47.2%	16,015	101,200	100.0%	106.9%	48.4%	18,700
Domestic Baby & Mother Care Business	31,823	33.6%	47.0%	4,818	33,747	33.4%	106.1%	48.9%	6,056
Child Care Service Business	7,393	7.8%	10.6%	211	7,485	7.4%	101.2%	10.4%	223
Health & Elder Care Business	6,901	7.3%	31.4%	445	7,100	7.0%	102.9%	31.2%	447
Overseas Business	23,051	24.4%	55.6%	4,861	24,644	24.4%	106.9%	56.2%	5,357
China Business	30,533	32.3%	44.6%	8,355	33,925	33.5%	111.1%	46.0%	9,480
Elimination of Internal Trading Between Segments	(6,337)	(6.7%)	—	—	(6,677)	(6.6%)	—	—	—
Other	1,273	1.3%	15.6%	162	974	1.0%	76.5%	15.7%	114

- ※ Starting from the current fiscal year, non-allocable operating expenses associated with the R&D Department, which had previously been included in the Adjustments section, have been reflected in segment profit of each reportable segment. Accordingly, the figures for the same period of the previous year have been adjusted in accordance with the calculation method after the above revision.
- ※ Segment profit on a consolidated basis has been adjusted (by deducting non-allocable operating expenses) to be equal to operating income in the consolidated statement of income.
- ※ Consolidated net sales have been presented after eliminating intersegment transactions of the Overseas Business and the China Business.

Shareholder return indicator under our 6th Medium-Term Business Plan

We adopt a flexible approach (incl. through share buybacks) to increasing shareholder return with a target to achieve a year-on-year increase in dividends and approximately 55% of the consolidated total shareholder return ratio in each fiscal year.

Dividends	FY Jan. 2015		FY Jan. 2016		FY Jan. 2017		FY Jan. 2018	
	Interim (Actual)	Year-end (Actual)	Interim (Actual)	Year-end (Actual)	Interim (Actual)	Year-end (Actual)	Interim (Plan)	Year-end (Estimate)
Dividend per Share (yen)	45 (15)	60 (20)	20	22	25 (including commemorative dividend of 3 yen)	28 (including commemorative dividend of 3 yen)	31	31
Dividend Payout Ratio	49.6%		49.3%		57.1%		57.1%	

* Our Group carried out a 2-for-1 stock split with respect to its common stock, effective as of August 1, 2013. It also carried out a 3-for-1 stock split with respect to its common stock, effective as of May 1, 2015. 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> Investment-related indicators

(millions of yen)	FY Jan. 2016		FY Jan. 2017		FY Jan. 2018	
	Interim (Actual)	Full-year (Actual)	Interim (Actual)	Full-year (Actual)	Interim (Actual)	Full-year (Forecast)
Capital Expenditures (※1)	1,773	3,036	1,250	2,498	1,252	3,700
Depreciation (※2)	1,216	2,474	1,191	2,357	1,206	2,400

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

※ 2 Depreciation (including amortization of goodwill)

Approach to Enhance Corporate Value

6th Medium-term Business Plan: 12 tasks

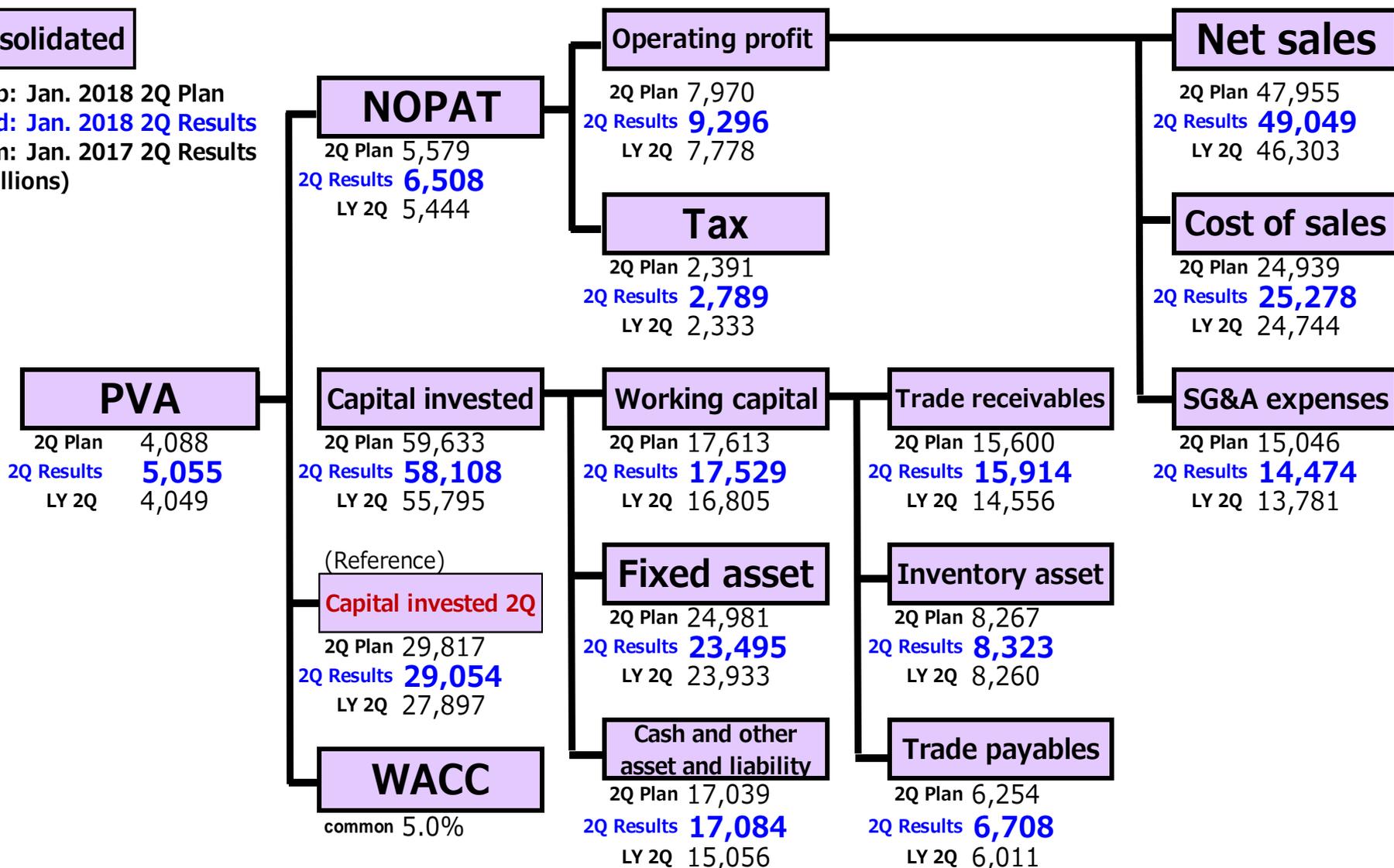


PVA Tree: Consolidated Results in Jul. 2017



Consolidated

Top: Jan. 2018 2Q Plan
 Mid: Jan. 2018 2Q Results
 Bottom: Jan. 2017 2Q Results
 (¥millions)



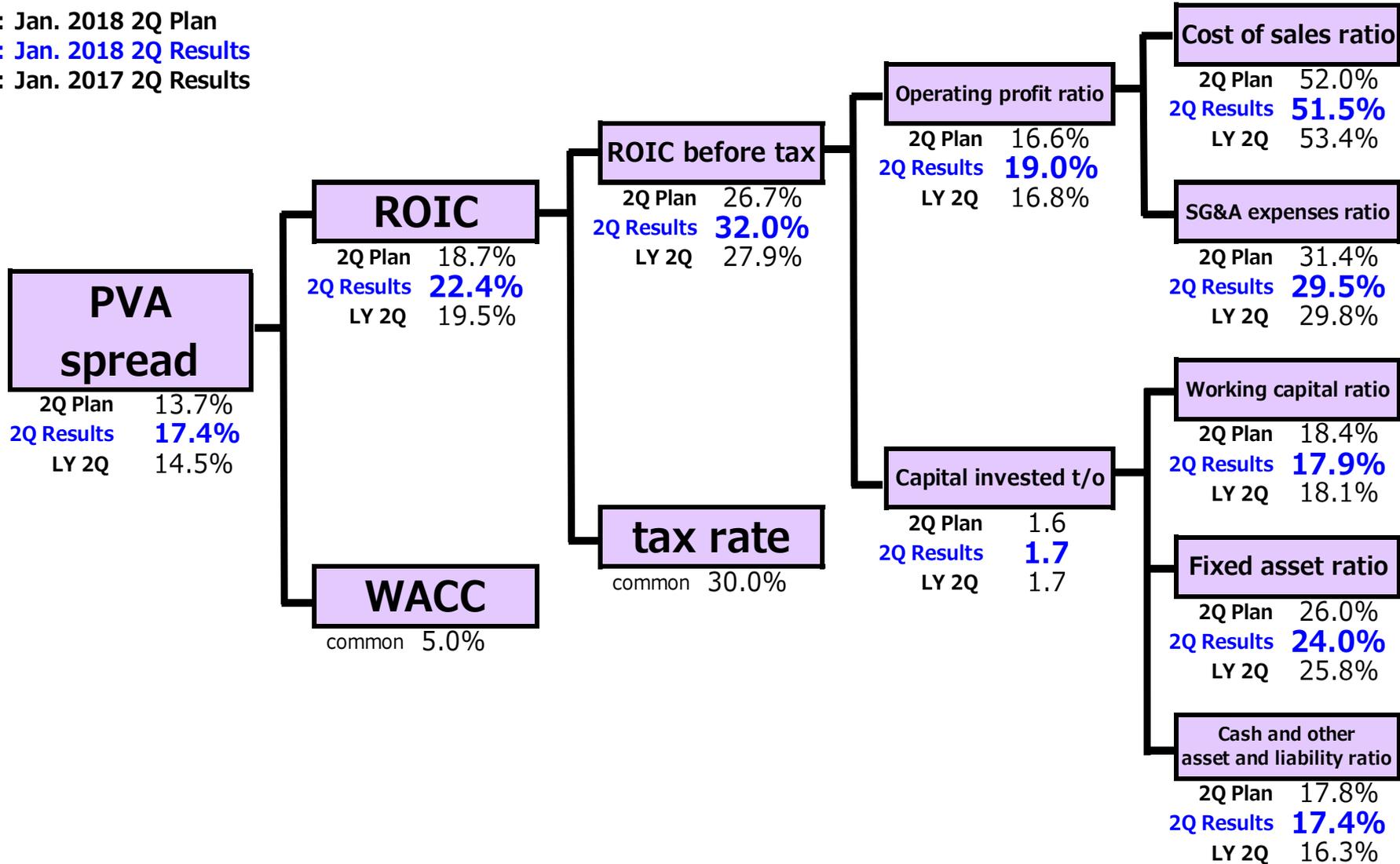
※For PVA calculation, B/S Factors are averaged between beginning and year-end figures, and adjusted into 1/2.

PVA (Ratio): Consolidated Results in Jul. 2017



Consolidated

Top: Jan. 2018 2Q Plan
 Mid: Jan. 2018 2Q Results
 Bottom: Jan. 2017 2Q Results



CCC Tree: Consolidated Results in Jul. 2017



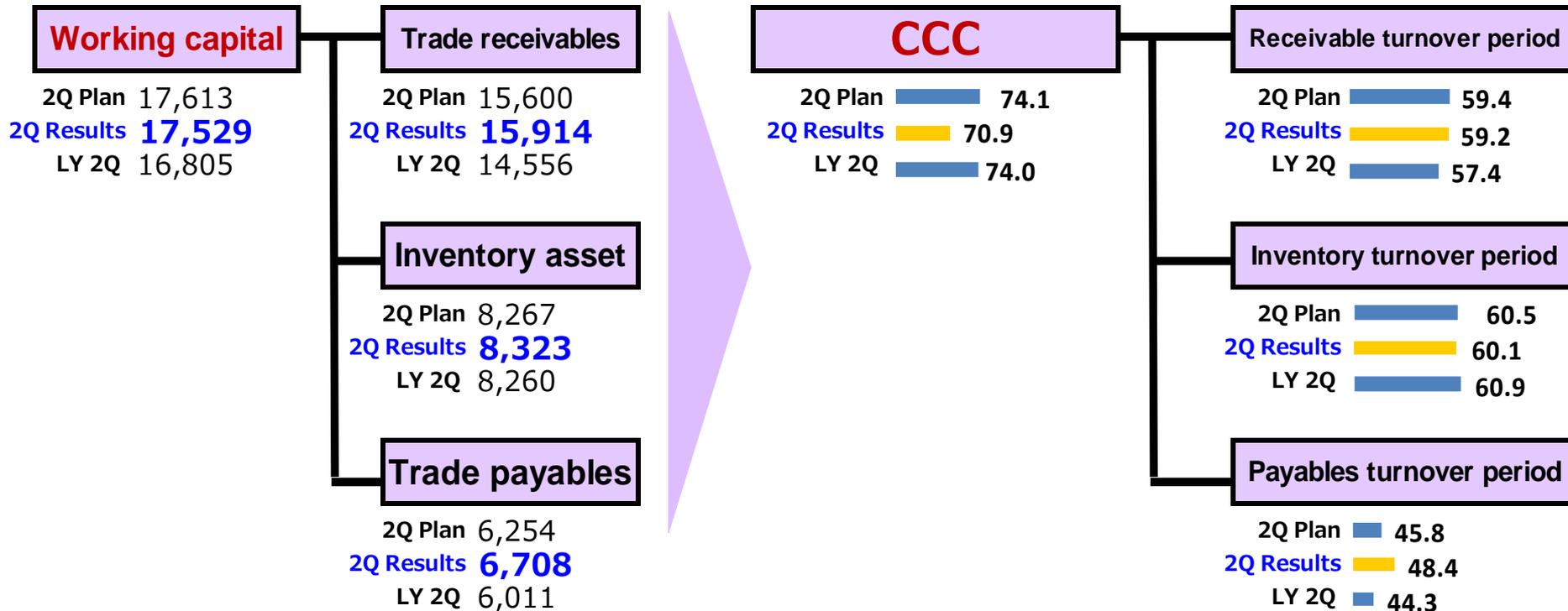
Consolidated

Top: Jan. 2018 2Q Plan

Mid: Jan. 2018 2Q Results

Bottom: Jan. 2017 2Q Results

(¥millions)



※For CCC calculation, B/S Factors are averaged between beginning and year-end figures, and adjusted into 1/2.

Appendix

6th Medium-term Business Plan: 12 tasks



ESG

Brief Explanation

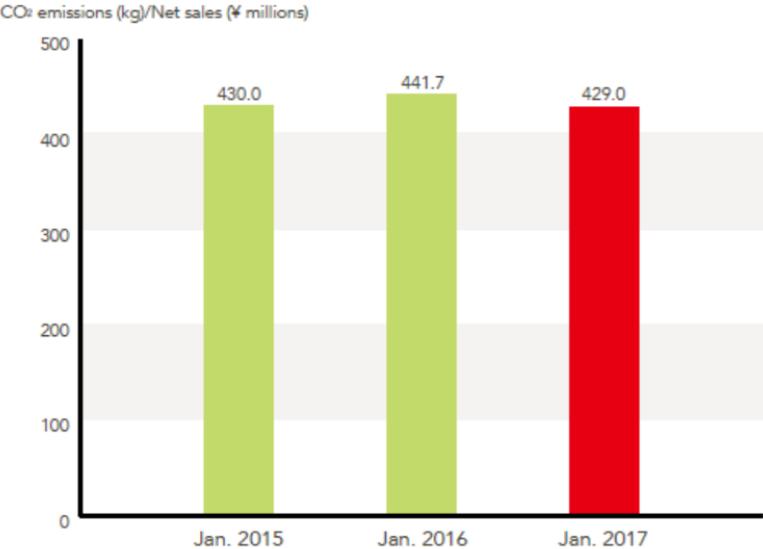
Environment

Climate Change

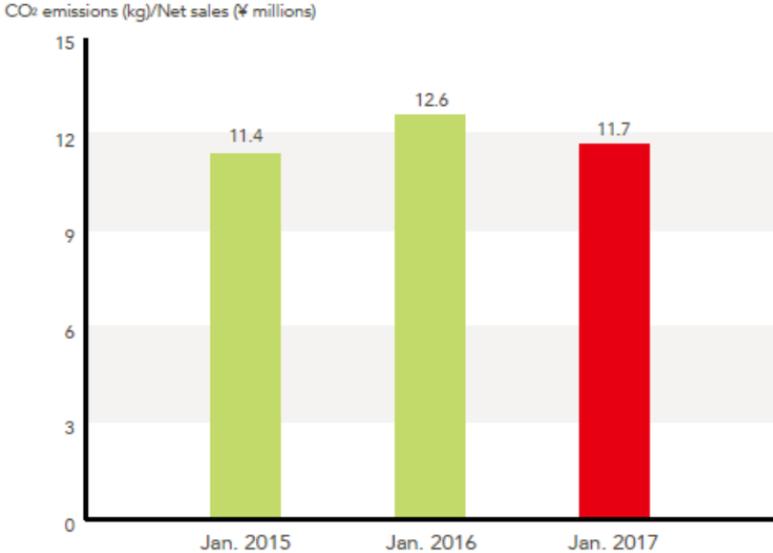
Carbon Dioxide Reduction and Electricity Savings

We have strengthened our system for managing carbon dioxide emission reductions and electricity savings. Specifically, we have established a consistent Groupwide method for calculating the volume of greenhouse gas emission, which had previously been addressed by each of our factories at its own responsibility. At our Chinese production facilities, though on a small scale, we are working to maximize solar and wind power generation while using paint containing photocatalytic paints, under the theme of “environmentally friendly factories,” and we are promoting all-LED lighting to save electricity.

3 domestic production companies
(Pigeon Home Products Corporation, PHP Hyogo Corporation, PHP Ibaraki Corporation)



2 Chinese production companies
(Pigeon Manufacturing (Shanghai) Co., Ltd., Pigeon Industries (Changzhou) Co., Ltd.)



Social

Local Activities

Child-Rearing Support Activities

We provide support to establish “breastfeeding & pumping rooms” in companies and other locations around the world, with the aim of helping female employees rear their children. As of May 2017, we provided such support for over 5,000 rooms in 15 countries around the world.

Elementary School Building Donations

In China, we have been building schools named Pigeon Hope Elementary School to donate them to areas with inadequate educational infrastructure. We have been making such donations at the pace of one building per year, and have so far donated nine elementary schools including those under construction. Our project is highly recognized and awarded by the government. We also maintain networking with teachers and pupils of the Pigeon Hope Elementary Schools.



Breastfeeding room in the Philippines



Breastfeeding room in Panama



Social

Local Activities

Newborn Baby Commemorative Tree-Planting Campaign

For over 30 years, we have continuously held our annual Newborn Baby Commemorative Tree-Planting Campaign, providing parents with lifelong memories of their babies' birth. Being a forest conservation initiative, the campaign also contributes in a small way to educational awareness about environmental protection. We have so far planted more than 130,000 seedlings on 42.65 hectares of both national forest and private land (more than 8 times as large as Tokyo Dome). In the national forest portion, covering 25.37 hectares, the "green dam" benefits equate to storage and purification of 5.71 million two-liter PET bottles.



Social

Supporting Women During Breastfeeding Stage

We have launched the Pigeon Smile Breastfeeding Period Research Group in collaboration with various experts on mothers and babies during breastfeeding, with the aim of identifying issues they face during the breastfeeding stage and exploring solutions. Every year we distribute about 100 thousand copies of *Shiawase (Happy) Breastfeeding Support Book*, a free-of-charge publication that summarizes the five most important points about breastfeeding.



Local Activities

Providing Scholarships to Students

We operate the Pigeon Scholarship Foundation, a public interest incorporated foundation, to award a non-repayable scholarship to students in the neonatal, pediatric, and obstetrics departments of universities.

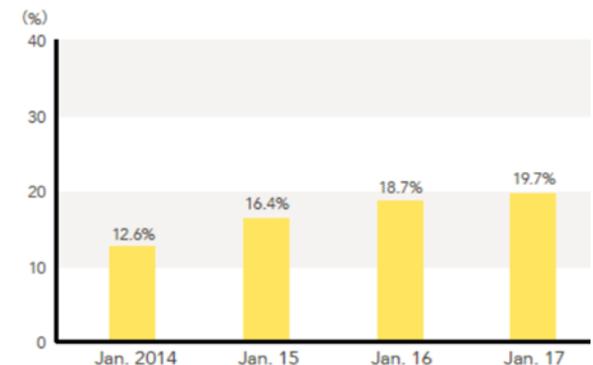


Human Capital

Strengthening Support for Advancement of Women.

We are also concentrating on fostering female managerial staff, with the aim of raising the current female manager ratio of 19.7%.

Female Manager Ratio



Governance

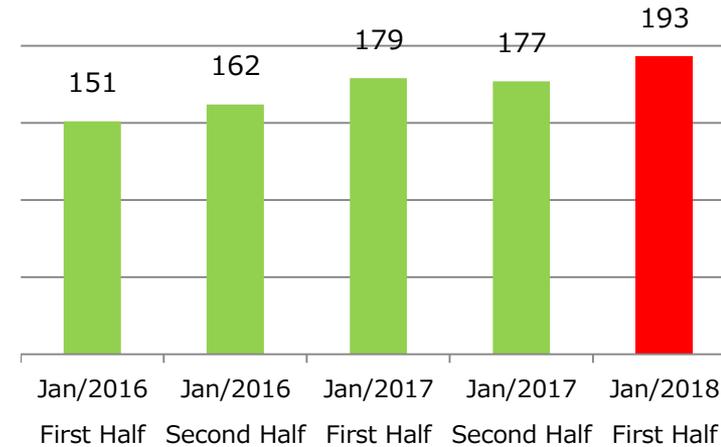
Engagement with Investors

We will further strengthen “a framework for transparent, fair, swift, and resolute decision-making” to continuously expand our business with an aim to increase our corporate value through the engagement, or purposeful dialogue, with investors.

Top Management Conference

We regularly convene top management conference comprising directors and managing officers to discuss with external lecturers what we need to continuously grow our business on a global scale and perpetuate the company.

Number of meetings held with institutional investors



Social Value

To be indispensable for the society and our customers

Provision of solutions and new values

Corporate philosophy shared by all employees and other stakeholders

Development capabilities and brand power

Competency of each employee

Reduction of our environmental impact and contribution to society in the fields other than our own business

Economic Value

Sum of present values of future free cash flows

Free cash flows

= NOPAT + Depreciation

- Investments

- Incremental working capital

Business models and competitive advantages that are hard to copy

Marketing capabilities

KPIs (PVA, CCC, ROE, ROIC) and actions for their improvement

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Disclaimer on Forward-Looking Statements

This material includes certain forward-looking statements about the Pigeon Group. To the extent that statements in this material do not relate to historical or current facts, they constitute forward-looking statements.

These forward-looking statements are based on the current assumptions and judgments of the Pigeon Group in light of the information currently available to it, and involve known and unknown risks, uncertainties and other factors, which may affect the statements made in this material.