

Summary of the Financial Results Conference Call for Q3 FY Dec. 2023

Note: 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.

[Date & Time] Wednesday, November 8, 2023 18:00 - 19:00

[Speakers] 2 speakers
Yasuo Kanatsuka Manager, Business Strategy Department
Sho Hiratsuka Associate Manager, Business Strategy Department

FY 2023 Q3 Results - Consolidated P&L (YTD 9 months)

Net sales increased 3.2% YoY driven by Japan, China, and Lansinoh business. In addition to higher profits due to increased revenue, improved gross margin absorbed increased SG&A expenses, resulting in higher operating income.

Unit: Million JPY	Q3 / Dec. 2022 YTD		Q3 / Dec. 2023 YTD		
	Actual	% of Total	Actual	% of Total	YoY Change
Net Sales	70,707	—	72,942	—	103.2%
Cost of Sales	37,510	53.1%	37,016	50.7%	98.7%
Gross Profit	33,197	46.9%	35,925	49.3%	108.2%
SG&A Expenses	24,093	34.1%	25,741	35.3%	106.8%
Operating Income	9,103	12.9%	10,183	14.0%	111.9%
Ordinary Income	10,774	15.2%	11,149	15.3%	103.5%
Net Income Attributable to Owners of Parent	6,948	9.8%	7,281	10.0%	104.8%

[Currency Rates] 2023 Q3 Results: US\$1 = JPY 138.17 CNY 1 = JPY 19.62
2022 Q3 Results: US\$1 = JPY 128.31 CNY 1 = JPY 19.38

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The consolidated results for the first nine months of the year (3Q) ended with an increase in revenue and profit, driven by the Japan business, the China business and the Lansinoh business. Sales amounted to 72,942 million yen, an increase of 3.2% over the previous year, approximately 2.2 billion yen.

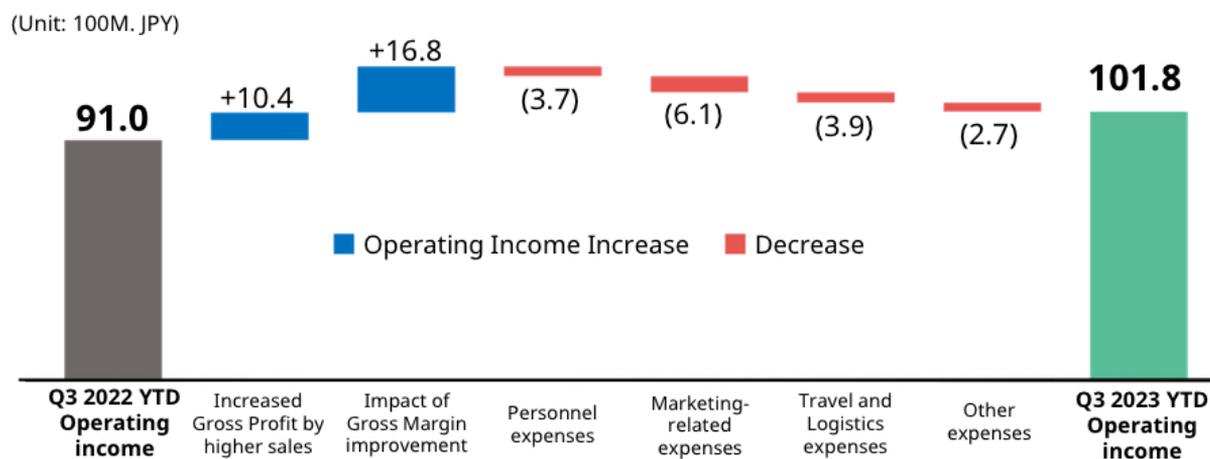
Gross profit amounted to JPY 35,925 million, an increase of 8.2%, approximately JPY 2.7 billion compared to the previous year.

Operating income was 10.1 billion yen, up 11.9% or about 1 billion yen from the previous year. The operating profit margin also improved by 1.1 percentage points.

Ordinary income and net income also ended the period higher than the previous year.

FY 2023 Q3 YTD Results - Change in Operating Income (YoY)

SG&A expenses increased by 1.64 billion YoY in Q3 YTD due to the overspent of carry-over activities from the 1H.
 Operating income increased by 1.08 billion yen YoY due to increased revenue and improved gross margin.
 (Some of the sales promotion expenses, etc. will be carried over in the Q4.)



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This is the reason for the increase or decrease in consolidated operating income in the 3Q cumulative period.

SG&A expenses for the cumulative 3Q increased by 1.64 billion yen from the previous year, due to the progress of the carry-over from the first half of the year.

On the other hand, cumulative operating income increased by 1.08 billion yen from the previous year, thanks also to increased revenue and improved gross margin.

However, as of the end of the 3Q, some of the sales promotion expenses were still unaccounted for against the internal plan, and these expenses are scheduled to be incurred in the 4th quarter (4Q).

FY 2023 Q3 Results - By Business Segment (YTD 9 months)

Unit: Million JPY	Q3 / Dec. 2022 YTD Results				Q3 / Dec. 2023 YTD Results				
	Net Sales	% of Total	Gross Margin	Segment Profit	Net Sales	% of Total	YoY Change	Gross Margin	Segment Profit
Consolidated Net Sales	70,707	—	46.9%	9,103	72,942	—	103.2%	49.3%	10,183
Japan Business	26,726	37.8%	32.7%	924	27,572	37.8%	103.2%	34.2%	1,638
China Business	26,220	37.1%	52.3%	8,100	27,301	37.4%	104.1%	55.8%	8,613
Singapore Business	10,772	15.2%	41.4%	1,978	10,118	13.9%	93.9%	38.2%	1,225
Lansinoh Business	12,384	17.5%	51.1%	476	13,651	18.7%	110.2%	54.0%	881
Elimination of inter-segment transactions	(5,396)	(7.6%)	—	—	(5,702)	(7.8%)	—	—	—

[Reference] Breakdown of Japan Business

Unit: Million JPY	Q3 / Dec. 2022 YTD Results				Q3 / Dec. 2023 YTD Results				
	Net Sales	% of Total	Gross Margin	Segment Profit	Net Sales	% of Total	YoY Change	Gross Margin	Segment Profit
Baby Care	18,694	—	37.1%	1,213	19,442	—	104.0%	39.4%	1,897
Childcare Services	2,577	—	15.6%	141	2,574	—	99.9%	15.5%	140
Health & Elder Care	3,686	—	31.3%	352	3,592	—	97.5%	31.5%	307

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This is profit/loss by business segment for the cumulative 3Q period.

Cumulative sales increased y-o-y in all three businesses except the Singapore business. In addition, both gross profit amount and gross profit margin increased y-o-y in the three businesses, excluding the Singapore business.

The improvement in gross margin was mainly due to contributions from product price revisions in the Japan business, an improved product mix in the China business due to an increased sales mix of baby bottles and nipples, and lower ocean freight costs in the Lansinoh business.

As for cumulative segment profit, both segment profit amount and profit margin increased y-o-y in the three businesses except for the Singapore business.

FY 2023 Q3 YTD Results - Business Summary By Segment

*Sales: Sell-in on a local currency basis

Japan business

Sales and income increased mainly due to growth in core products and steady sales of mainstay products even after the price revision in February.

- Baby care sales are on a steady trend, up 4.0% YoY in Q3 YTD.
- YTD sales of nursing bottles and skincare products increased YoY. Wet tissues and other consumables also performed well.
- New products launched in August, including the electric nasal aspirator "SHUPOT" and "Parts for Bonyu-Jikkan bottles (straw and lid)".
- Inbound demand still remains sluggish despite an upward trend in the number of foreign visitors to Japan.
- YTD Gross margin of Baby Care improved by 2.3 pt YoY. Price revision in February also contributed.
- Another price revisions were implemented for baby-related products and Health & Elder Care products from September.

China business

YTD sales of mainland China was flat YoY, partly due to advance shipments for W11. Sell-out struggled.

- Mainland China sales* were -8.2% in Q3 alone, but flat in Q3 YTD.
- YTD sales of nursing bottles/nipples increased 27% YoY. Baby skincare: -11% YOY. Skincare was particularly affected by headwinds for Japanese brands following the release of ALPS treated water.
- Age-Up products (Natural weaning series and skincare for kids) are expanding sales both offline and through EC.
- YTD Gross margin (JPY) in China business improved by 3.5 pt YoY due to an increase in the sales composition of nursing bottles/nipples.
- YTD Sell-out were down 6% YoY, with EC at almost flat, but offline sales continued to be sluggish at -18% YoY. Sell-out of Tiktok and Pinduoduo, newly focused channels, continued to grow at double-digit YoY rates. EC ratio ended 72% in Q3 YTD.

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This is a summary by business segment for the cumulative 3Q.

The performance of the Japan business grew mainly in core products. Also, core products remained strong even after the price revision in February, resulting in increased sales and profit.

Sales of baby care products were solid, up 4.0% from the previous fiscal year. Cumulative sales of baby bottles and nipples and skincare products increased from the previous fiscal year. Sales of wet wipes and other consumables were also strong.

New products include the electric nasal aspirator SHUPOT, straws and lids for Bonyu Jikkan parts, etc., which have been on sale since August.

With regard to inbound sales, although the number of foreign visitors to Japan is on the rise, inbound demand to the Company remains sluggish.

The gross profit margin for Baby Care improved 2.3 percentage points y-o-y on a cumulative basis, with the price revision in February making a significant contribution. As announced in our recent release, we have once again implemented price revisions for baby care products and health care/nursing care products in September, following the February price revision.

The China business also ended the year with increased revenues and profits.

Mainland China sales in the 3Q alone (July-September) were -8.4% y-o-y on a local currency basis, partly due to prior shipments to Double Eleven (and partly due to growth in the previous period after the lockdown). Year-to-date sales (sell-in) ended at almost the same level as the previous quarter.

Cumulative sales of baby bottles and nipples were up 27% from the previous quarter. Baby skincare category was down 11% from the previous quarter. In particular, we see the 3Q alone as a significant headwind for Japanese brands in skin care products due to the release of treated water.

New products include the natural weaning series, which is currently the focus of the Age-Up product line, and skincare for kids, both of which are expanding sales both offline and through e-commerce.

The cumulative gross profit margin of the China business improved by 3.5 percentage points from the previous year, partly due to an increase in the sales composition of baby bottle and nipple products.

Meanwhile, sellout in mainland China ended the quarter at -6% y-o-y on a cumulative basis. By channel, e-commerce remained almost on par with the previous quarter, while offline remained sluggish at -18% y-o-y. However, sell-outs from newly focused channels such as TikTok and Pinduoduo continued to grow with double-digit growth over the previous quarter. The ratio of e-commerce to total sales in the 3Q was 72%.

FY 2023 Q3 YTD Results - Business Summary By Segment

*Sales: Sell-in on a local currency basis

<p>Singapore business</p>	<p>Sales and income declined. Affected by the reactionary decline in major countries sell-in growth past year. Expenses for sell-out growth will be incurred ahead of schedule.</p> <ul style="list-style-type: none"> • YTD sales* in India: -21% YoY, Malaysia: -9% YoY, Indonesia: -8% YoY, Middle East: -20% YoY • YTD Sell-out grew YoY, especially in India, Australia and Thailand driven by nursing bottle and nipple sales growth. • New products include additional design of nursing bottles and a renewed model of breast pump. • Continued to strengthen sales of core products (nursing bottles and nipples, skincare); Natural Botanical skincare is gradually expanding sell-out by strengthening brand recognition both in E-commerce and offline stores in key markets. • YTD Gross margin (JPY) of the Singapore business deteriorated by -3.2 pt YoY due to lower sales at sales companies and factories, etc.
<p>Lansinoh Business</p>	<p>Sales in North America fell below YoY, but sales in Europe and China increased. Lower ocean freight rates contributed to improved gross margin.</p> <ul style="list-style-type: none"> • Lansinoh Group sales* increased 2% YoY (YTD). Sales in North America declined 4% YoY due to the increased competition in the consumables market and a reactionary decline from special demand, while sales in Europe (Germany, UK, and France) increased mainly due to sales growth of core products such as nipple creams. • YTD Sales of prenatal and postpartum care products grew by double digits YoY. Continued strong sales in North America, UK, Germany and Benelux. • New product, Wearable Breast Pump is now available at one major US discount store in August. As a result, YTD sales in the breast pump category are gradually recovering. • YTD Gross margin (JPY) improved by 2.9 pt YoY, partly due to lower ocean freight rates (COGS factor). On the other hand, U.S. distribution costs (SG&A factor) continued to soar.

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The Singapore business continued to experience a reactionary decline from the previous year's sell-in growth in major countries from the 2Q, and ended the 3Q accumulation with lower sales and income. On the other hand, expenses are ahead of schedule for sellout growth in each country.

Cumulative year-to-date sales y-o-y for each country in the Singapore business were -21% in India, -9% in Malaysia, -8% in Indonesia, and -20% in the Middle East.

Year-to-date sellout increased from the previous year, especially in India, Australia, and Thailand, where baby bottles and nipples are performing well.

New product launches included additional designs for baby bottles and renewed models of breast pumps. The Singapore business continued to strengthen sales of its core products, baby bottles and nipples, and skincare products, while Natural Botanical skincare strengthened brand recognition in both e-commerce and offline stores in each country, and sell-out is gradually increasing.

The cumulative gross profit margin of the Singapore business deteriorated by -3.2 percentage points from the previous year due to lower sales at sales companies and plants.

In the Lansinoh business, while sales in North America fell below the previous year's level in the cumulative 3Q, sales in Europe and China grew. In addition, lower ocean freight rates contributed to improved profit margins.

Lansinoh Group's sales in local currency terms ended the year with a y-o-y increase of 2% on a cumulative basis. Sales in North America were down 4% from the previous year due to intensified competition in the consumables market and a reactionary decline from the special demand that occurred last year. On the other hand, sales in Europe, including Germany, UK, and France, grew mainly due to nipple cream, a core product.

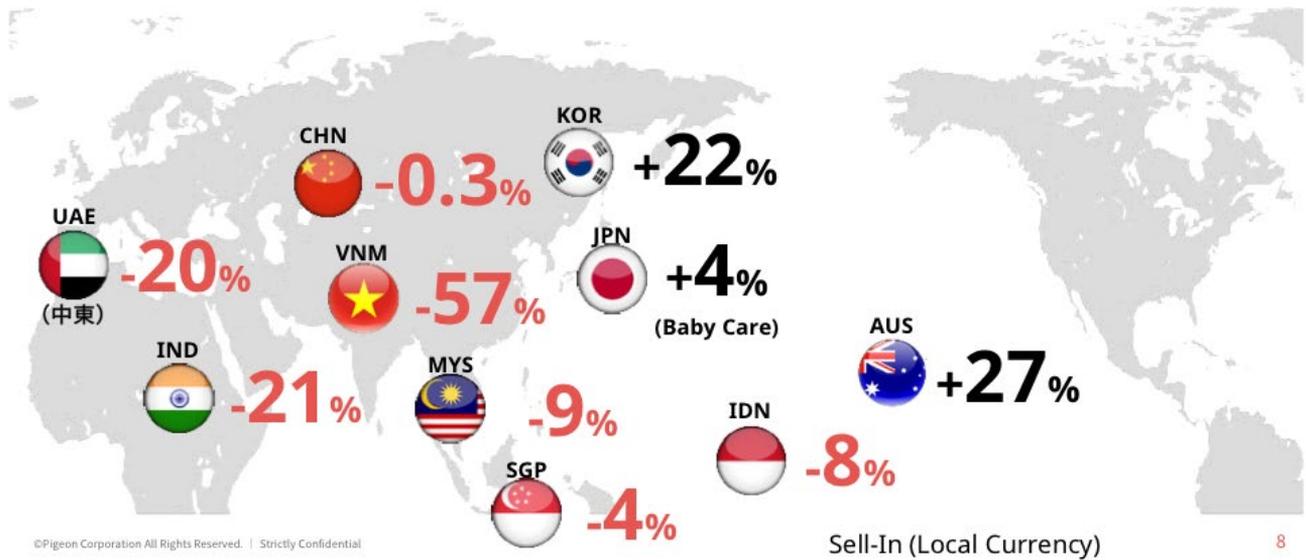
Cumulative sales of prenatal and postpartum care, which we are working on as a new category, grew by double digits compared to the previous year. Sales continue to be strong not only in North America, but also in the UK, Germany, Benelux, and other markets.

The new product, Wearable Breast Pump, was launched in August at one major North American discount store. As a result, cumulative sales in the breast pump category are also on a recovery track, albeit gradually.

The cumulative gross profit margin improved by plus 2.9 percentage points from the previous year, partly due to lower ocean freight rates. On the other hand, sales and logistics costs (a factor of SG&A expenses) in the U.S. continued to soar.

These are summaries by business.

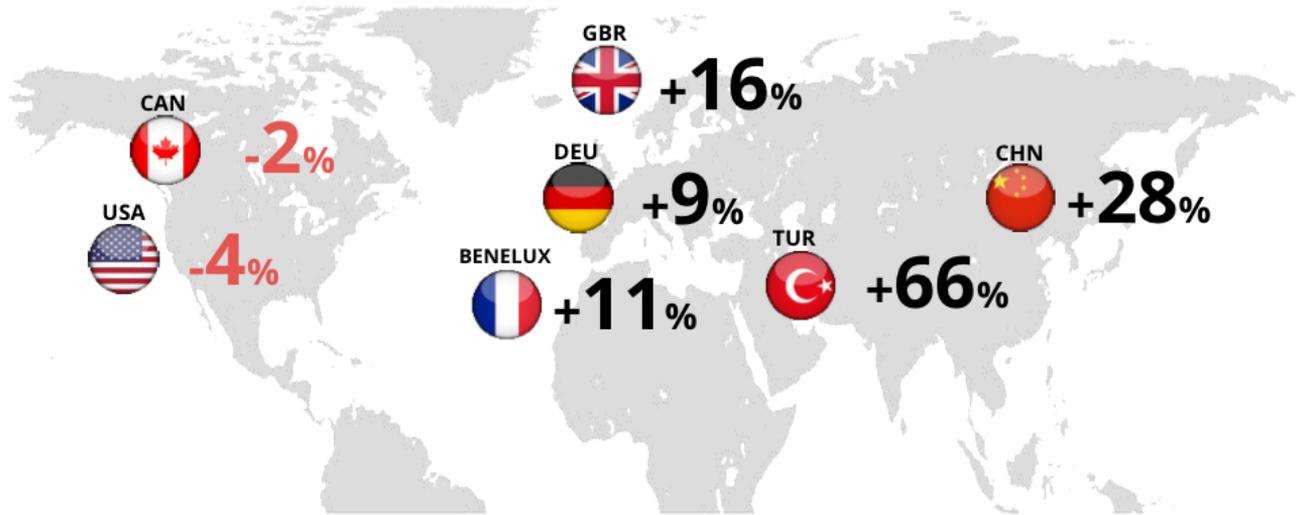
FY 2023 Q3 YTD Results - Pigeon Sales by Region (YoY)



Please refer to pages 8 through 10 for the year-to-date sales figures of Pigeon and Lansinoh brands on a local currency basis for each of their major markets, as well as their e-commerce ratios.

FY 2023 Q3 YTD Results - Lansinoh Sales by Region (YoY)

Lansinoh.



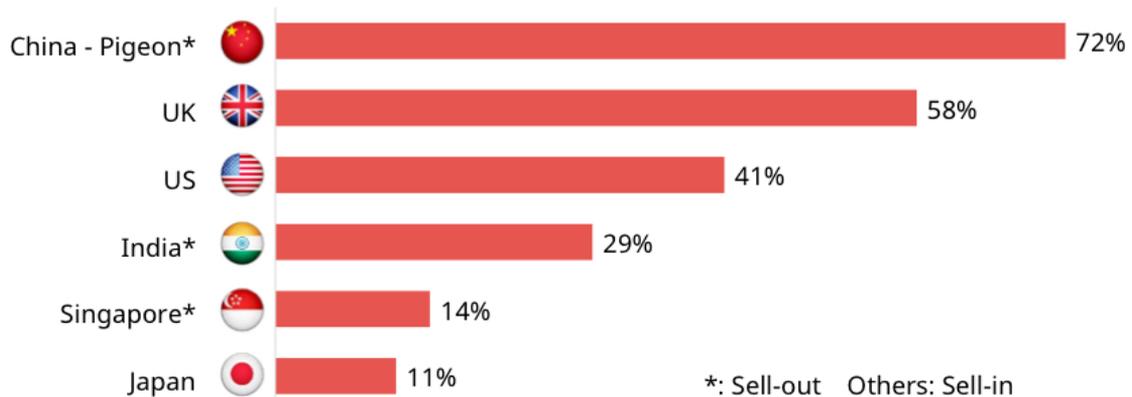
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Sell-In (Local Currency)

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FY 2023 Q3 YTD Results - EC Sales Ratio in Key Markets

[E-commerce sales ratio of Pigeon / Lansinoh products]



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FY 2023 Full-year Forecast - Unchanged

While the Japan and Lansinoh businesses are growing firmly, the Company also faces growing uncertainty in the China market, needs to strengthen our business activity to recover business conditions in the China and Singapore business, and focuses on achieving its initial plan. In Q4, we plan to spend on implementing measures to accelerate growth in each business and strengthening activities for sustainable growth.

Unit: Million JPY	FY Dec. 2022		FY Dec. 2023 Outlook		
	Actual	% of Total	Forecast	% of Total	YoY Change
Net Sales	94,921	100.0%	100,000	100.0%	105.4%
Cost of Sales	50,087	52.8%	51,800	51.8%	103.4%
Gross Profit	44,834	47.2%	48,200	48.2%	107.5%
SG&A Expenses	32,638	34.4%	35,800	35.8%	109.7%
Operating income	12,195	12.8%	12,400	12.4%	101.7%
Ordinary income	13,465	14.2%	12,400*	12.4%	92.1%
Net Income Attributable to Owners of Parent	8,581	9.0%	8,100	8.1%	94.4%

* Subsidy income not included

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[Currency rates] FY Dec. 2022 Results: US\$1 = JPY 131.55 / CNY 1 = JPY 19.50
FY Dec. 2023 Budget: US\$1 = JPY 130.00 / CNY 1 = JPY 19.50

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Finally, I would like to discuss the outlook for full-year results.

There is no change in our full-year earnings forecast for the current fiscal year from the forecast announced at the beginning of the period. While the Japan and Lansinoh businesses are performing well, there is a growing sense of uncertainty in the Chinese market at the moment, and the Singapore business needs to strengthen its response to the recovery in business performance.

Under these circumstances, in the 4Q alone, we plan to spend on additional measures to accelerate growth in each business and to strengthen activities for sustainable growth in the next FY 2024 and beyond. Therefore, we will first continue to focus on achieving this initial plan.

This is a summary of the financial results for the third quarter.

Questions and Answers

*Questions and answers are listed by business category.

Whole

Q. What was the impact of foreign exchange rates on consolidated results in the first three quarters?

A. In the cumulative 3Q, there was a positive impact of approximately 1.5 billion yen on consolidated net sales, approximately 700 million yen on gross profit, and over 100 million yen on ordinary income compared to the previous year's exchange rate.

Q. How did consolidated sales and profit progress against your internal plan in the 3Q non-consolidated and year-to-date?

A. Looking at the 3Q consolidated results (July-September), sales in Japan were in line with the plan, and Lansinoh's sales were slightly above the plan, including the effect of foreign exchange rates, but sales in China (including Korea) and the Singapore business, which has been undergoing a reactionary downward adjustment since 2Q, were below the plan. Gross profit was almost in line with the plan due to an improved mix of products sold, while SG&A expenses were partially carried over from 1H and were eliminated in 3Q alone, resulting in operating profit slightly below the plan.

In the cumulative 3Q, consolidated net sales were slightly below the internal plan, but gross profit was almost in line with the plan. SG&A expenses were still several hundred million yen higher than planned, partly because several hundred million yen of the carry-over from 1H remained unaccounted for, and as a result, operating income exceeded the plan.

Q. How likely are you to achieve your full-year forecasts?

A. Considering the situation in mainland China through 3Q and the Singapore business, which continues to adjust from the previous year's growth, we believe there is a possibility that consolidated net sales may not reach the 100 billion-yen mark in the full-year plan. In addition, although consolidated gross margin and operating income at the end of the 3Q were higher than our internal estimates at the beginning of the period, we are not optimistic about the profit margin. In the non-consolidated 4Q (Oct-Dec), it is necessary to actively invest SG&A expenses in sell-out leverage measures and further growth measures in each business, so we will continue to invest expenses in a balanced manner to achieve consolidated operating profit for the full year (JPY 12.4 billion).

[Japan Business]

Q. The number of foreign visitors to Japan is recovering, and is Pigeon's inbound demand on a recovery trend?

A. As far as inbound store sales, which are regularly monitored by the Company, remained flat y-o-y in the cumulative 3Q. In addition, due to the release of ALPS treated water in the 3Q alone (July-September), overseas demand, especially for Momonoha skincare and other products outside the Company's jurisdiction such as cross-border e-commerce, also appears to be sluggish.

[China Business]

Q. How did the 3Q stand-alone (July-September) sellout EC channel compare to the previous quarter?

A. Overall 3Q stand-alone sellout, including EC and offline, ended at -12% y-o-y. Of this, EC was down 8% y-o-y. While existing major EC sellouts declined YoY, focused channels such as TikTok continued to grow at a high rate YoY, although the composition ratio is still small.

Q. Based on the sell-in and sell-out in mainland China in the cumulative 3Q, what is the outlook for the 4Q?

A. In sellout, EC had been growing y-o-y through 1H, but in 3Q, it was below the previous year's level. On the other hand, sell-in in the 3Q alone (July-September) was partially affected by the release of treated water, but the cumulative total remained on par with the previous year due to shipments of new baby bottles and more advance shipments for the double-eleven sales season in November than in previous years.

The Company had expected continued growth in EC sellout in the 3Q and beyond, but actual sellout was sluggish in some areas. In the 4Q, the Company will consider adjusting sell-in and implementing additional measures to stimulate sellout while monitoring the distribution inventory situation.

Q. Please tell us about the impact of the ALPS treated water release and the prospects for convergence.

A. Immediately after the release of ALPS treated water in August, there was a temporary increase in the number of inquiries from mainland Chinese customers to our company, but this

number has now subsided. In our business activities, marketing activities were also severely restricted, as the planned Key Opinion Leader promotion became difficult, etc. We expect that there was a certain amount of decrease in brand exposure and sales due to this, but we are unable to calculate the impact of this in quantitative terms. In addition, as far as the current market reaction is concerned, the country of origin is not so important, and there is a tendency to avoid Japanese branded products in all consumer goods.

Q. What is the response to the new "Natural Weaning Series" launched in June?

A. Shipments of the natural weaning series are progressing as initially expected, and the response from customers has been positive. We expect that this series will contribute to further expansion of our market share of baby bottle and nipple products. However, it is difficult to see the contribution of the series, perhaps due to the avoidance of Japanese brands due to the impact of the release of treated water. However, since we will have a sales expansion system in place from 4Q, we will continue to focus on sales as one of our new areas of business and hope to increase our market share of baby feeding bottles and nipples in mainland China.

[Singapore Business]

Q. Please tell us about the status of distribution inventory adjustment and sellout recovery in major countries.

A. Although sellout is recovering in the Middle East, Indonesia, Malaysia, and other markets, it has not yet exceeded the level of the previous year. We have been able to gradually reduce distribution inventories by focusing on increasing sellout while controlling sell-in from our company. Although the pace of reduction is slower than we had expected, we will continue our efforts to achieve inventory normalization in major countries by the end of FY2023.

[Lansinoh Business]

Q. Do you think the profitability improvement effect of lower ocean freight rates is sustainable?

A. Assuming that the level of ocean freight rates will remain at the current level, we expect the effect to continue until around the first half of next year.

[END]