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### **Notice Regarding Formulation of New Medium-Term Business Plan**

The Pigeon Group has formulated its Sixth Medium-Term Business Plan (for the period between fiscal year ending January 2018 and fiscal year ending January 2020). Details are given below.

#### 1. Overview of Fifth Medium-Term Business Plan

##### (1) Overview

For the Fifth Medium-Term Business Plan, in which term ended January 2017 was the last year, the Group chose the slogan of "Pursuing world class business excellence, think globally, plan agilely, and implement locally." As its business policy, the Group provided the "Vision 2016" consisting of the following five items, and strove to expand its business and improve its management quality.

- i) Strengthening brand power (Global Number One manufacturer of baby products)
- ii) Reinforcing the management system toward a sustainable growth of our Group's business
- iii) Improving management quality by focusing on cash flow
- iv) Fostering our Group's global personnel, establishing human resources systems and promoting its employees' activities
- v) Further enhancing corporate value

Still, among financial targets set in the Fifth Medium-Term Business Plan, the Group could not accomplish the consolidated net sales (for the term ended January 2017, which was forecast at ¥100 billion). It should be noted though that in the Domestic Baby and Mother Care Business, the Group managed to record business results substantially exceeding the plan, that in the former Overseas Business (the present Overseas Business and China Business), we managed to smoothly expand our presence on a level exceeding the targets in North America and Europe, and also continually worked to expand our business in China.

However, thanks to improvements in operations of the Group's manufacturing subsidiaries, which were made possible by an increase of income of each business, efficient use of selling, general and administrative expenses, and other causes, the Group managed to achieve all targets regarding the

various profit-related items such as ROE (return on equity), and ROIC (return on invested capital), leading to improvements in profitability and capital efficiency alike.

(2) Financial Targets and Results (Consolidated)

[Progress Status of Fifth Medium-Term Business Plan]

(billions of yen)

	Fifth Medium-Term Business Plan Target		FY January 2017 Result		Progress Status
	Target Amount	% of Net Sales	Result	% of Net Sales	
Net sales	100.0	—	94.6	—	94.6%
Gross profit	44.2	44.2%	44.6	47.2%	101.1%
Operating income	15.0	15.0%	16.0	16.9%	106.8%
Ordinary income	15.0	15.0%	16.4	17.4%	109.8%
Net income	9.0	9.0%	11.1	11.8%	123.5%
ROE (%)	21.0% and more	—	21.8%	—	+0.8pt
ROIC* (%)	15.0% and more	—	16.3%	—	+1.3pt

\* NOPAT/invested capital; tax rate calculated as 40.7%.

If we take a look at the domestic sales by business segment, the Domestic Baby and Mother Care Business recorded sales substantially exceeding the target (of ¥27 billion) with ¥31.8 billion (117.9% of the target) thanks to the so-called inbound consumption. Health and Elder Care Business that posted sales of ¥6.9 billion performed under the target (of ¥8 billion), but the Child Care Service Business at ¥7.3 billion exceeded the target (of ¥6.7 billion).

In the former Overseas Business (the present Overseas Business and China Business), on the other hand, for the Lansinoh operations, which we mainly conduct in such regions as North America, Europe, and Turkey, we have conducted reinforcement of the product supply system through construction of a new factory in Turkey, established a new sales base (in Belgium) and conducted other measures to boost our business infrastructure in Europe, where our operations are expected to grow in the future. We also launched operations in China, and all of these steps helped us to post sales results exceeding the targets.

In China, the Group managed to expand its presence. Creation of a logistics system to accommodate the mushroom growth of EC channel and measures conducted to establish and boost the Pigeon brand in the country also bore fruit, resulting in the sales remaining robust in the main product categories of nursing bottles and nipples, but sales of disposable diapers for babies fell below the

estimated targets.

In the emerging markets, the Group reinforced sales and marketing activities in India, at the same time implementing a number of steady measures such as launching a local production factory for nursing bottles and nipples.

As a result, although net sales for the former Overseas Business fell short of the target set in the Fifth Medium-Term Business Plan (¥57.3 billion) with ¥47.2 billion, they were still 122.6% of the results posted in the term ended January 2014 (¥38.5 billion), showing a substantial improvement of profitability.

Under the Sixth Medium-Term Business Plan, the Group will strive to further optimize and reinforce its business operating system, positively implement a range of measures set in the business strategies of each business segment as well as the functional strategies serving as the basis for them, in order to achieve yet further improvements of our corporate value. In particular, the Group will focus on the Overseas Business and the China Business, which are positioned as continuing growth fields, strive to expand and deepen its presence in the existing main markets, centering on such areas as China, North America, Europe, and through active business expansion in the high growth markets and new markets, strive to ensure rapid growth of earnings even after the term of this medium-term business plan is over.

## 2. Overview of Sixth Medium-Term Business Plan (for the period between fiscal year ending January 2018 and fiscal year ending January 2020)

### (1) Ensuring Good Knowledge of the "Pigeon Way"

The group deploys operation to fulfill its mission to bring joy, happiness and inspiration to babies and families around the world by providing them with products and services that embody its corporate philosophy "love." Guided by this commitment, the Group has set in its medium to long-term corporate vision "to be the baby product manufacturer most trusted by the world's babies and families i.e. "Global Number One." In 2014, the Group established "Pigeon Way", consisting of Mission, Vision, three key values that each employee must treasure in their daily duties, and five action principles that form the basis and guide for all of our actions.

During the term of the Sixth Medium-Term Business Plan also, the Group intends to continue its business expansion on an even more global scale, and we are going to conduct a range of measures to ensure that Pigeon Way is well understood and practiced by each and every employee of the Group both in Japan and outside the country, try to achieve and reach the Vision and the medium-term business plan targets using the strength of every company of the Group.

### (2) Medium-Term Business Policies and Strategies

In the Sixth Medium-Term Business Plan, our Group has put up the following slogan, "Building our dreams into the future - by creating a bridge towards the Global Number One manufacturer of baby

products -."

The Group has also formulated the following basic strategy and the preferential strategy based on it, and shall strive to continue its business expansion and improve its corporate value further.

#### Basic Strategy

##### "Social Value Enhancement"

- 1) Based on the Pigeon Way, create and implement all kinds of measures to achieve the goal of becoming 'an indispensable company' for the society and make our Vision "to be the baby product manufacturer most trusted by the world's babies and families, i.e. 'Global Number One'" come true.

##### "Economic Value Enhancement"

- 2) A further increase in corporate value will be pursued through improvement in profitability and efficiency of the business, and maximization of cash flows. The organizational structure, management system and governance system will also be put in place and reinforced to ensure sustainable growth from a medium to long-term perspective.
- 3) During the three years of the Sixth Medium-Term Business Plan, invest management resources giving priority to the key products and carry out strategic investments, laying solid foundations for the double-digit growth of Pigeon Group in the future.

#### Key Strategy

- 1) Improvement of business efficiency and profitability

Further development towards structure of high-profitability and cash flow management

- Improvement of Group's gross margin (on consolidated base)  
(Increase of sales, improvement of the mix, improvement of productivity/procurement, etc.)
- Reduction of logistics expenses
- CCC improvement

- 2) Expansion strategy for key categories

Spreading the overwhelming strength of nursing bottles and nipples over the entire spectrum of key categories.

Existing Three Flagships

Nursing bottles/Nipples, Cups, Pacifiers/Teething toys

New Three Flagships

Breast-feeding related products, Skincare/Toiletries/Detergents, Electric products

Regionally Marketed Products

Disposable diapers (China), Large-sized products (Japan)

The outline of strategies for each of our businesses and functions are as outlined below.

[China Business]

**Net sales: ¥30.5 billion (in the term ended January 2017) => ¥39 billion (in the term ending January 2020)**

- Business Growth
  - Increase in the market share in six key categories
  - Increase in sales of disposable diapers
- Reinforcement of business foundations
  - Further reinforcement of sales/logistics systems to accommodate the growth of EC channel
- Reinforcement of communication with consumers
  - Strengthening ties with regular hospitals and maternity hospitals
  - Reinforcement of direct communication

[Overseas Business]

**Net sales: ¥23.1 billion (in the term ended January 2017) => ¥29 billion (in the term ending January 2020)**

- Business growth
  - Increase in the market share in six key categories
  - Growth of Lansinoh operations (North America, Europe, Turkey, China, etc.)
- Branding
  - Reinforcement of measures conducted with NICUs in various countries
- Markets to be cultivated
  - Reinforcement in high growth markets
    - India, Indonesia, France (Benelux), China (with the Lansinoh brand)
  - Increasing presence in new markets
    - Africa (Nigeria, Kenya, various countries on the West Coast)

[Domestic Baby and Mother Care Business]

**Net sales: ¥31.8 billion (in the term ended January 2017) => ¥36.5 billion (in the term ending January 2020)**

- Expansion of the existing business
  - Increase in the market share in six key categories
- Business growth
  - Growth in the large-sized product category
- Reinforcement of communication with consumers
  - Reconstruction/restrengthening of activities in general hospitals and maternity hospitals
  - Reinforcement of direct communication

[Health and Elder Care Business]

**Net sales: ¥6.9 billion (in the term ended January 2017) => ¥8 billion (in the term ending January 2020)**

- Business growth/ improvement in profitability
  - Reinforcement of in-company sales system and logistics system
  - Developing and selling new products that empathetically incorporate insights of consumers and caretakers through working with collaborative partners outside the Group
  - Reinforcement of promotion based on four themes that reflect the benefits of consumers and caretakers

[Child Care Service Business]

**Net sales: ¥7.4 billion (in the term ended January 2017) => ¥3 billion (in the term ending January 2020)**

- Improvement in quality of operations
  - Implementing highly specialized child-rearing to reflect the distinctive characteristics of children Striving to find yet further ways to approach safe and secure management system
  - Improving quality of child-rearing service by fostering child care staff

[Functional strategies]

1) Research and Development

- Launch new products/renewed products in the six key categories
- Strengthen research and development of breast pumps establishing them as a product of primary importance next to nursing bottles
- Launch products with our distinctive value proposition in the large-sized product category
- Establish production and development system to respond to the growth speed of the Group
- Develop new products for hospitals (particularly products targeting NICUs)  
NICU: Neonatal Intensive Care Unit (intensive care unit for newborn infants)
- Develop products and services conscious of A.I., IoT, and Smart Connected

2) Quality Control

- Further intensifying the Pigeon Productive Management (PPM)-related activities
- Strengthening support to improve industrial engineering and the yield rate<sup>3</sup>) Production, Procurement, and Logistics
- Improvement in profitability primarily through higher in-house production rate
- Achieving the division of production and establishment of operation control system on a global basis with an aim to efficiently utilize the intra-Group production bases home and abroad
- Accelerating product procurement and concentration of functions to purchase main raw materials (by achieving the global SCM)

SCM: Supply Chain Management

4) Global personal rating system

- Recruiting and training of personnel with ability of working on a global stage
- “Improvement of job satisfaction” and “Reform of Work Style”
- Globalization of management by objective

5) Global governance

- Investing in and developing the IT system to improve efficiency of the Group-wide performance management
- Functional enhancement of the company as Global Head Office (GHO)
  - Strengthening “the function that can envisage a future of the Group as a whole, ensure management resources to realize it, allocate them from a total optimization viewpoint, and evaluate the results for improvement”
  - Three functions of GHO: power to unify the Group, power to promote the business and power to envisage the future.

(3) Medium-Term Financial Targets for the Group

The level of achievements aimed at for the term ending January 2020, which is the last fiscal year of the Sixth Medium-Term Business Plan, is net sales of ¥110 billion, operating income of ¥20 billion, ordinary income of ¥20 billion, and net income attributable to owners of parent of ¥13.8 billion. By steadily achieving the goals of the Plan and performing strategic investments into the businesses, we shall reinforce managerial and business foundations to enable the Group to achieve further growth in the period of the Seventh Medium-Term Business Plan and henceforth.

Moreover, we intend to bring the gross margin from 47.2%, which it was in the term ended January 2017, to 50.0%, the operating margin from 16.9% to 18.2%, and, paying great attention to such management indices as ROE (return on equity), and ROIC (return on invested capital), strive to make even further improvements in profitability and capital efficiency.

[Main Targets of Sixth Medium-Term Business Plan]

(billions of yen)

	FY January 2017 Result		FY January 2020 Target		Annual Average Growth Rate
	Result	% of Net Sales	Target	% of Net Sales	
Net sales	94.6	—	110.0	—	+5.1%
Gross profit	44.6	47.2%	55.0	50.0%	+7.2%
Operating income	16.0	16.9%	20.0	18.2%	+7.7%
Ordinary income	16.4	17.4%	20.0	18.2%	+6.7%
Net income	11.1	11.8%	13.8	12.5%	+7.5%
ROE (%)	21.8%	—	22.0% and more	—	—
ROIC* (%)	19.2%	—	20.0% and more	—	—

\* NOPAT/invested capital; tax rate calculated as 30.0%.

[Targets by Business Segment]

(billions of yen)

	FY January 2017 Result		FY January 2020 Target		Annual Average Growth Rate
	Result	Gross Margin	Target	Gross Margin	
Domestic Baby and Mother Care Business	31.8	47.0%	36.5	47.6%	+4.7%
Child Care Service Business	7.3	10.6%	3.0	16.8%	—
Health and Elder Care Business	6.9	31.4%	8.0	34.6%	+5.0%
Overseas Business	23.0	55.6%	28.9	56.1%	+7.9%
China Business	30.5	44.6%	39.0	45.7%	+8.5%
Inter-segment transactions	(6.3)	—	(6.9)	—	—
Others	1.2	15.6%	1.4	15.5%	+4.6%
Consolidated net sales	94.6	47.2%	110.0	50.0%	+5.1%

### 3. ESG

The Group has positioned efforts to contribute to the stakeholders, the regional communities, and the environment as tasks of great importance.

As the Environmental, Social and Governance (ESG) criteria, we have established the following concrete measures, strive to make improvements in each and every endeavor, and announce the

results and achievements every year in various ways including annual reports.

- Environment

- Climate: CO2 reduction, power saving, etc.
- Resources: use of sustainable resources, etc.
- Contaminants and waste: reduction of disposal/garbage, pollution prevention measures, etc.
- Environmental opportunities: tree-planting activities, etc.

- Social

- Human resources: implementing measures to reduce overtime work, engaging in management by objective, providing training systems, global personnel training, etc.
- Responsibility regarding products: ensuring safety of products, etc.
- Regional activities: conducting tree-planting campaigns, activities to encourage creativity in children, making donations supporting construction of elementary school buildings, etc.
- Fair operating practices: Pigeon partners line, etc.

- Governance

- Corporate governance: reinforcement of governance system, etc.
- Diversity/receptivity: ensuring employees' diversity, welcoming women in managerial class, conducting measures to ensure aid for childcare, compliance, etc.

#### 4. Shareholder Return

The Pigeon Group regards the return of income to shareholders as an important management priority. Our policy is to actively return income to shareholders through stock dividends and other means, while reinforcing our financial position based on considerations of medium-term changes in business conditions and the Group's business strategies.

During the period of this medium-term business plan also, the Group will strive to expand earnings per share by promoting continuous business growth and striving to improve business results, and our basic policy regarding redistribution of profits is to ensure continuous and steady dividends. In terms of returns to stockholders for this medium-term business plan, we are going to increase the already high level of achievements of the Fifth Medium-Term Business Plan, which is why we set the goal at "aiming to increase dividends every fiscal year compared to previous year and target a consolidated total shareholder return of 55%", and shall strive to continue to live up to the expectations of our shareholders and investors.