

Summary of Financial Results for the Third Quarter of Fiscal Year Ending January 2019 [Japanese Standards] (Consolidated)

December 3, 2018

Name of Listed Company: Pigeon Corporation (Stock code: 7956)
 Listing: First Section, Tokyo Stock Exchange
 Website: www.pigeon.co.jp
 Representative: Shigeru Yamashita (President and COO)
 Contact person: Tsutomu Matsunaga (Managing Officer, Corporate Planning & Administration Division)/Tel: +81-3-3661-4188
 Scheduled Filing Date of Quarterly Report: December 7, 2018
 Scheduled Commencement Date of Dividend Payments: —
 Preparation of Any Additional Explanatory Materials for Quarterly Financial Results: None
 Holding of Any Briefing Session for Quarterly Financial Results: None

1. Consolidated Business Performance for the First Three Quarters of Fiscal Year Ending January 31, 2019 (February 1 to October 31, 2018)

(1) Consolidated Operating Results (cumulative)

(Millions of yen, rounded down, % figures denote year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent	
3Q ended October 31, 2018	79,394	5.4%	16,860	12.9%	17,684	16.6%	12,243	17.3%
3Q ended October 31, 2017	75,350	7.9%	14,938	23.8%	15,171	24.7%	10,434	21.8%

(Note) Comprehensive income: 3Q ended October 31, 2018 ¥10,691 million (3.0% negative)
 3Q ended October 31, 2017 ¥11,020 million (233.3%)

	Net Income per Share (¥)	Diluted Net Income per Share (¥)
3Q ended October 31, 2018	102.23	—
3Q ended October 31, 2017	87.13	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
3Q ended October 31, 2018	85,464	65,170	73.5
FY ended January 31, 2018	84,467	62,812	71.9

(Reference) Shareholders' Equity: 3Q ended October 31, 2018 ¥62,813 million
 FY ended January 31, 2018 ¥60,693 million

2. Cash Dividends

	Annual Dividend (¥)				
	1Q-end	2Q-end	3Q-end	Year-end	Total
FY ended January 31, 2018	—	31.00	—	35.00	66.00
FY ending January 31, 2019	—	34.00	—		
FY ending January 31, 2019 (Forecast)				34.00	68.00

(Note) Changes in dividend forecasts to the most recent announcement: None

3. Consolidated Business Performance Forecasts for the Fiscal Year Ending January 31, 2019 (February 1, 2018 to January 31, 2019)

(% figures denote year-on-year change from the previous term)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent		Net Income per Share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
Full year	107,000	4.3%	20,400	5.1%	20,400	1.3%	14,100	(2.9)%	117.73

(Note) Revision of forecasts to the most recent announcement: None

Notes

- (1) Changes in major subsidiaries during the period under review: None
New: — (Company name: —), Excluded: — (Company name: —)
- (2) Application of any accounting procedures specific to preparation of quarterly consolidated financial statements:
None
- (3) Changes in accounting policies, changes in accounting-based estimates, and restatements
 - 1) Changes in accounting policies associated with revision of accounting standards: None
 - 2) Changes in accounting policies other than the above 1): None
 - 3) Changes in accounting-based estimates: None
 - 4) Restatements: None
- (4) Number of outstanding shares (common stock)
 - 1) Number of shares outstanding at the period-end (including treasury stock)
3Q ended October 31, 2018: 121,653,486
FY ended January 31, 2018: 121,653,486
 - 2) Amount of treasury stock at the period-end
3Q ended October 31, 2018: 1,892,564
FY ended January 31, 2018: 1,892,329
 - 3) Number of average shares outstanding during the period (quarter accumulation)
3Q ended October 31, 2018: 119,761,004
3Q ended October 31, 2017: 119,761,317

* Summaries of quarterly financial results are exempt from quarterly review by certified public accountants and auditing corporations.

* Cautionary Statement regarding Performance Forecasts

The forecasts and future projections stated in this report have been prepared on the basis of the information and assumption that shall be reasonable as of the date of announcement of this summary information, and the forecasts and future projections stated in this report are in no way intended as a promise of achievement as a company.

In addition, the actual results could differ significantly from forecast figures depending on a variety of factors. See the section “(3) Explanation of Consolidated Performance Forecast and Other Future Predictions” in “1. Qualitative Information Regarding the Financial Results for the Current Quarter” on page 4 regarding conditions which are preconditions for business performance forecasts and cautions for using the business performance forecast.

Table of Contents of the Appendix

1. Qualitative Information Regarding the Financial Results for the Current Quarter.....	2
(1) Explanation of Business Performance.....	2
(2) Explanation of Financial Position	4
(3) Explanation of Consolidated Performance Forecast and Other Future Predictions	4
2. Issues Regarding Summary Information (Notes).....	5
(1) Significant Changes in Subsidiaries During the Period Under Review	5
(2) Application of Any Accounting Procedures Specific to Preparation of Quarterly Consolidated Financial Statements.....	5
3. Quarterly Consolidated Financial Statements and Main Notes	6
(1) Quarterly Consolidated Balance Sheets	6
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income	8
Quarterly Consolidated Statement of Income (Scope of Consolidation of Third Quarter)	8
Quarterly Consolidated Statement of Comprehensive Income (Scope of Consolidation of Third Quarter).....	9
(3) Notes on Consolidated Financial Statements	10
(Notes Regarding Going Concern Assumptions)	10
(Notes Regarding Substantial Changes in Shareholders' Equity).....	10
(Segment Information)	11

1. Qualitative Information Regarding the Financial Results for the Current Quarter

(1) Explanation of Business Performance

1) Overview of Operation

During the consolidated first nine-month period under review, despite the effect of a series of natural disasters in Japan, Japan's economy continued to recover at a gradual pace as a whole, thanks to an increase in corporate earnings and enhancement in the employment environment. In the global economy, in addition to the European and U.S. economies continuing to recover at a gradual pace, the Chinese economy also picked up steadily, although there was growing trade friction between the U.S. and China.

Amid such economic circumstances, the Group developed the Sixth Medium-Term Business Plan (for the period between the fiscal year ended January 2018 and the fiscal year ending January 2020), under the slogan of "Building our dreams into the future – by creating a bridge towards the Global Number One manufacturer of baby products –," and has made efforts toward our further growth in the second year of this plan. In addition, we have set the following three basic strategies that would help us to expand the Group's business and improve its management quality.

- 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.
- 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.

During the consolidated nine-month period under review, we implemented a range of strategies for each of our businesses and functions on the basis of the above business policies. As a result, due to a favorable performance of the Domestic Baby & Mother Care Business, China Business, Singapore Business, and Lansinoh Business, net sales amounted to ¥79,394 million (up 5.4% YOY). Regarding earnings, operating income rose to ¥16,860 million (up 12.9% YOY) thanks to a reduction of approximately 2.8 percentage points in the sales cost ratio from the previous term. Ordinary income recorded ¥17,684 million (up 16.6% YOY), and net income attributable to owners of parent also increased to ¥12,243 million (up 17.3% YOY).

The main exchange rates used in the preparation of this nine-month period's financial statements for the Company's overseas consolidated subsidiaries (revenues and expenses) are as follows:

- 1US\$: 109.60 yen (111.88 yen)
- 1 CNY: 16.84 yen (16.46 yen)

Note: Figures in parentheses represent the exchange rate in the same period of the previous fiscal year.

Although so far, our Group had a total of five reporting segments identified as "Domestic Baby & Mother Care Business," "Child Care Service Business," "Health & Elder Care Business," "Overseas Business," and "China Business," from the consolidated first three-month period of the current fiscal year, we decided to change the denomination of our "Overseas Business" renaming it to "Singapore Business" that shall be engaged in various businesses under the Pigeon brand mainly in the ASEAN and countries of the Middle East, while the business conducted under the Lansinoh brand and mainly developed in Europe and the U.S., which had been a part of the "Overseas Business" so far, was set up as an independent segment named "Lansinoh Business," and the reporting from now on will be done based on a division into a total of six segments. Each segment

is outlined below.

In addition, we have made year-over-year comparisons by converting the figures in the same period of the last year into the figures calculated in accordance with the new calculation method after the above revision.

Domestic Baby & Mother Care Business

Net sales of the segment amounted to ¥27,301 million (up 5.7% YOY). Segment profit increased to ¥5,082 million (up 10.4% YOY). In this segment, sales continued to grow steadily thanks to the continuing demand resulting from inbound tourism, as well as the July release of the completely redesigned “Bonyu Assist®” breast pump series, which is equipped with “Baby Rhythm” technology created through more than 60 years of baby nursing research, and the August release of the new “Pigeon Electric Baby Nasal Aspirator” product, which was jointly developed with otolaryngologists.

Furthermore, the release of the new product “Pigeon Before-Bedtime Fluoride Coat” for preventing cavities in babies also contributed to steady growth of sales. Moreover, during the period under review, we have held a number of events planned as a part of our direct communications program such as our “Breast Feeding Seminar” for women expecting to give birth in the near future and a seminar about breastfeeding while parenting for health care professionals, organized 25 times. A total of approximately 2,600 people have participated. On "Pigeon Info," which is a site that supports women during pregnancy, in childbirth, and those raising children, we are continuing updates of Pigeon's merchandise available and improvement in content, so that users can use the site in a more convenient manner.

Child Care Service Business

Net sales of the segment amounted to ¥3,499 million (down 37.8% YOY). Segment profit decreased to ¥112 million (down 20.4% YOY). It should be also noted that as of March 2018, the bulk outsourcing agreement for childcare hospital centers under the National Hospital Organization (Incorporated Administrative Agency) expired, but during the consolidated first nine-month period under review, we have concluded new contracts for four in-company child-care facilities. We currently provide services to a total of seventy-five facilities, and shall continue to develop this business further from now on striving to improve the quality of the content we offer.

Health & Elder Care Business

Net sales of this segment amounted to ¥5,158 million (up 2.0% YOY), while segment profit decreased to ¥236 million (down 25.2% YOY). At the International Home Care & Rehabilitation Exhibition held in October, we exhibited new products scheduled for release in 2019. These new products met with favorable reception from customers and distributors. We will continue to focus on further strengthening our sales activities toward retail stores and nursing care facilities, and will implement thorough measures to ensure that the quality of our nursing care services, etc., are improved.

China Business

Net sales in this segment increased to ¥26,879 million (up 9.9% YOY), because sales of core products such as nursing bottles and nipples and skincare products remained strong, and segment profit increased to ¥9,893 million (up 14.1% YOY). In particular, there continued to be strong sales of the “Medicated Skincare Series (Peach Leaves)” and “Bonyu Jikkan® Nursing Bottle My Precious.” The nursing bottle with handle and the steam sterilizer released in the second half of the fiscal year were also met with favorable reception. In addition, we will continue to strengthen our activities toward the growing E-commerce market; we will utilize social networking services and influencers further for invigoration of direct communication with consumers and will also continue to reinforce sales promotions at stores as well as offline sales activities aimed at hospitals and maternity clinics, in order to increase contact points with customers and expand our operation.

Singapore Business

In this segment, net sales amounted to ¥9,150 million (up 20.5% YOY) due to factors such as depreciation of the yen. Segment profit also increased to ¥2,425 million (up 19.1% YOY), thanks to the improvement of gross profit margin, as well as the effective use of selling, general and administrative expenses. In Indonesia and the other ASEAN countries as well as the countries of the Middle East, we enjoyed a steady expansion of sales centering on nursing bottles and nipples. We shall develop our sales and marketing activities further, striving to boost the presence of our brands in these areas also.

Lansinoh Business

Net sales of the segment amounted to ¥9,406 million (up 5.7% YOY), and segment profit also increased to ¥1,405 million (up 11.8% YOY). In North America, sales of breast pumps and other products are steadily expanding through DME Channel, maternity hospitals, and other new sales routes. In addition to North America, we shall pave the way for further business expansion in Europe and Lansinoh Shanghai by conducting a wide range of measures including strengthening our marketing and brand reinforcement.

Other Businesses

Net sales of the segment amounted to ¥1,020 million (up 6.0% YOY), and segment profit stood at ¥99 million (up 8.3% YOY).

(2) Explanation of Financial Position

(Assets)

As of October 31, 2018, our Group recorded total assets of ¥85,464 million, up ¥996 million from the previous consolidated fiscal year ended January 31, 2018. Current assets increased by ¥130 million, while fixed assets increased by ¥865 million.

Current assets increased mainly due to increases in merchandise and finished goods of ¥1,827 million, in raw materials and supplies of ¥857 million, and in other current assets of ¥704 million, despite a decrease in cash and deposits of ¥3,620 million.

Fixed assets increased mainly due to an increase in other intangible fixed assets of ¥1,152 million.

(Liabilities)

As of October 31, 2018, our Group recorded total liabilities of ¥20,293 million, down ¥1,362 million from the previous consolidated fiscal year ended January 31, 2018. Current liabilities decreased by ¥1,543 million, while fixed liabilities increased by ¥180 million.

Current liabilities decreased mainly due to decreases in income taxes payable and in other current liabilities of ¥925 million and ¥1,499 million, respectively, despite an increase in notes and accounts payable - trade of ¥391 million.

Fixed liabilities increased, mainly because provision for directors and corporate auditors' retirement benefits increased by ¥72 million and other fixed liabilities by ¥93 million.

(Net Assets)

As of October 31, 2018, our Group recorded total net assets of ¥65,170 million, up ¥2,358 million from the previous consolidated fiscal year ended January 31, 2018.

Net assets increased mainly due to an increase in retained earnings of ¥3,979 million, despite a decrease in foreign currency translation adjustment of ¥1,849 million.

(3) Explanation of Consolidated Performance Forecast and Other Future Predictions

For the "Sixth Medium-Term Business Plan (for the period between the fiscal year ended January 2018 and the fiscal year ending January 2020)," 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 –."

We will further develop and enhance our business operating system, while pursuing in the improvement of management quality and steadily implementing the measures grounded on the

newly formulated strategies for each business segment and the functional strategy that serves as the foundation thereof. We find particularly important to continue to expand and enrich business in the existing markets regarding the China, Singapore, Lansinoh businesses, which our Group still positions as growing fields. Moreover, we will aim at further improvement in business performance through actively pursuing new markets. In this consolidated fiscal year, the second year of our Sixth Medium-Term Business Plan, we will strive to ensure completion of our plans.

2. Issues Regarding Summary Information (Notes)

(1) Significant Changes in Subsidiaries During the Period Under Review

Not applicable.

(2) Application of Any Accounting Procedures Specific to Preparation of Quarterly Consolidated Financial Statements

Not applicable.

3. Quarterly Consolidated Financial Statements and Main Notes**(1) Quarterly Consolidated Balance Sheets**

(Millions of yen)

	At January 31, 2018	At October 31, 2018
ASSETS		
I. Current Assets:		
Cash and deposits	31,346	27,726
Notes and accounts receivable - trade	16,440	16,594
Merchandise and finished goods	6,059	7,887
Work in process	293	446
Raw materials and supplies	2,359	3,217
Other current assets	1,898	2,603
Allowance for doubtful accounts	(221)	(166)
Total Current Assets	58,178	58,308
II. Fixed Assets:		
1. Tangible Fixed Assets:		
Buildings and structures, net	7,105	6,837
Land	5,878	5,866
Other tangible fixed assets, net	8,131	8,503
Total Tangible Fixed Assets	21,116	21,207
2. Intangible Fixed Assets:		
Goodwill	1,271	1,030
Other intangible fixed assets	2,036	3,188
Total Intangible Fixed Assets	3,307	4,219
3. Investments and Other Assets:		
Other	1,877	1,740
Allowance for doubtful accounts	(12)	(12)
Total Investments and Other Assets	1,865	1,728
Total Fixed Assets	26,289	27,155
Total Assets	84,467	85,464
LIABILITIES		
I. Current Liabilities:		
Notes and accounts payable - trade	5,194	5,585
Electronically recorded obligations - operating	1,797	2,065
Income taxes payable	2,578	1,652
Accrued bonuses to employees	1,035	1,472
Reversal of reserve for returned products	51	45
Provision for special extra retirement payments	208	—
Other current liabilities	6,808	5,308
Total Current Liabilities	17,673	16,130
II. Fixed Liabilities:		
Net defined benefit liability	290	305
Provision for directors and corporate auditors' retirement benefits	516	588
Other fixed liabilities	3,175	3,268
Total Fixed Liabilities	3,982	4,163
Total Liabilities	21,655	20,293

(Millions of yen)

At January 31, 2018 At October 31, 2018

NET ASSETS		
I. Shareholders' Equity:		
Capital stock	5,199	5,199
Capital surplus	5,179	5,179
Retained earnings	49,729	53,709
Treasury stock	(949)	(950)
Total Shareholders' Equity	59,158	63,137
II. Accumulated Other Comprehensive Income:		
Valuation difference on available-for-sale securities	44	35
Foreign currency translation adjustment	1,490	(359)
Total Accumulated Other Comprehensive Income	1,534	(324)
III. Non-controlling Interests	2,119	2,357
Total Net Assets	62,812	65,170
Total Liabilities and Net Assets	84,467	85,464

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

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

(Millions of yen)

	Nine months ended October 31, 2017	Nine months ended October 31, 2018
I. Net Sales	75,350	79,394
II. Cost of Sales	38,340	38,161
Gross profit	37,010	41,232
Reversal of reserve for returned products	71	26
Transfer to reserve for returned products	52	44
Adjusted gross profit	37,029	41,215
III. Selling, General and Administrative Expenses	22,090	24,354
Operating Income	14,938	16,860
IV. Non-operating Income:		
Interest income	129	180
Share of profit of entities accounted for using equity method	42	—
Foreign exchange gains	—	219
Subsidy income	327	656
Other non-operating income	142	147
Total Non-operating Income	640	1,203
V. Non-operating Expenses:		
Interest expenses	5	2
Sales discounts	301	337
Foreign exchange losses	68	—
Other non-operating expenses	32	40
Total Non-operating Expenses	407	380
Ordinary Income	15,171	17,684
VI. Extraordinary Income:		
Gain on sales of fixed assets	3	5
Gain on sales of investment securities	95	108
Total Extraordinary Income	98	113
VII. Extraordinary Loss:		
Loss on sales of fixed assets	6	0
Loss on disposal of fixed assets	46	44
Total Extraordinary Loss	53	45
Income before Income Taxes	15,216	17,752
Income taxes - current	4,592	5,012
Income taxes - deferred	11	169
Total Corporate Income Tax	4,603	5,181
Net Income	10,612	12,570
Net Income Attributable to Non-controlling Interests	177	327
Net Income Attributable to Owners of Parent	10,434	12,243

Quarterly Consolidated Statement of Comprehensive Income
(Scope of Consolidation of Third Quarter)

(Millions of yen)

	Nine months ended October 31, 2017	Nine months ended October 31, 2018
Net Income	10,612	12,570
Other Comprehensive Income		
Valuation difference on available-for-sale securities	(5)	(9)
Foreign currency translation adjustment	412	(1,870)
Total Other Comprehensive Income	407	(1,879)
Quarterly Comprehensive Income	11,020	10,691
(Break down)		
Quarterly comprehensive income on parent company	10,782	10,384
Quarterly comprehensive income on non-controlling interests	237	306

**(3) Notes on Consolidated Financial Statements
(Notes Regarding Going Concern Assumptions)**

Not applicable.

(Notes Regarding Substantial Changes in Shareholders' Equity)

Not applicable.

(Segment Information)

Nine months ended October 31, 2017

1. Information Regarding Net Sales and Profit (Loss) in Each Reporting Segment

(Millions of yen)

	Reporting Segment							Other Businesses (Note 1)	Total	Adjustments (Note 2)	Amount Accounted on Quarterly Consolidated Statement of Income (Note 3)
	Domestic Baby & Mother Care Business	Child Care Service Business	Health & Elder Care Business	China Business	Singapore Business	Lansinoh Business	Subtotal				
Net sales											
Net sales to external customers	25,840	5,623	5,059	24,353	4,607	8,903	74,388	962	75,350	—	75,350
Internal sales or exchange between segments	—	—	—	100	2,987	—	3,088	—	3,088	(3,088)	—
Total	25,840	5,623	5,059	24,454	7,595	8,903	77,476	962	78,439	(3,088)	75,350
Segment profit	4,605	141	315	8,671	2,036	1,257	17,029	92	17,121	(2,182)	14,938

(Notes)

1. The “Other Businesses” classification refers to businesses not included in the reporting segments, and consists of our Group’s manufacturing subsidiaries, but also of those manufacturing and selling products to companies outside our Group.
2. The negative amount of ¥2,182 million from adjustments in segment profit includes negative ¥22 million in elimination of intersegment transactions, and negative ¥2,185 million in non-allocable operating expenses. Non-allocable operating expenses are administrative costs of our Group.
3. Segment profits are adjusted to operating income in the quarterly consolidated statement of income.

Nine months ended October 31, 2018

1. Information Regarding Net Sales and Profit (Loss) in Each Reporting Segment

(Millions of yen)

	Reporting Segment							Other Businesses (Note 1)	Total	Adjustments (Note 2)	Amount Accounted on Quarterly Consolidated Statement of Income (Note 3)
	Domestic Baby & Mother Care Business	Child Care Service Business	Health & Elder Care Business	China Business	Singapore Business	Lansinoh Business	Subtotal				
Net sales											
Net sales to external customers	27,301	3,499	5,158	26,750	6,292	9,371	78,374	1,020	79,394	—	79,394
Internal sales or exchange between segments	—	—	—	128	2,857	35	3,021	—	3,021	(3,021)	—
Total	27,301	3,499	5,158	26,879	9,150	9,406	81,396	1,020	82,416	(3,021)	79,394
Segment profit	5,082	112	236	9,893	2,425	1,405	19,156	99	19,256	(2,396)	16,860

(Notes)

1. The “Other Businesses” classification refers to businesses not included in the reporting segments, and consists of our Group’s manufacturing subsidiaries, but also of those manufacturing and selling products to companies outside our Group.
2. The negative amount of ¥2,396 million from adjustments in segment profit includes negative ¥10 million in elimination of intersegment transactions, and negative ¥2,386 million in non-allocable operating expenses. Non-allocable operating expenses are administrative costs of our Group.
3. Segment profits are adjusted to operating income in the quarterly consolidated statement of income.

2. Changes in Reporting Segments, etc.

From the consolidated first three-month period of the current fiscal year, we decided to change the denomination of our "Overseas Business" renaming it to "Singapore Business" that shall be engaged in various businesses under the Pigeon brand mainly in the ASEAN and countries of the Middle East, while the business conducted under the Lansinoh brand and mainly developed in Europe and the U.S., which had been a part of the "Overseas Business" so far, was set up as an independent segment named "Lansinoh Business," and the reporting from now on will be done based on a division into a total of six segments.

The segment information in the consolidated nine-month period in the last fiscal year is adjusted in accordance with the new segment profit calculation method after the above revision.