

Summary of Financial Results for the Third Quarter of Fiscal Year Ending December 2020 [Japanese Standards] (Consolidated)

November 5, 2020

Name of Listed Company: Pigeon Corporation (Stock code: 7956)
 Listing: First Section, Tokyo Stock Exchange
 Website: www.pigeon.com
 Representative: Norimasa Kitazawa (President and CEO)
 Contact person: Nobuo Takubo (Managing Officer, Business Strategy Division Manager)/Tel: +81-3-3661-4204
 Scheduled Filing Date of Quarterly Report: November 16, 2020
 Scheduled Commencement Date of Dividend Payments: —
 Preparation of Any Additional Explanatory Materials for Quarterly Financial Results: Yes
 Holding of Any Briefing Session for Quarterly Financial Results: None

1. Consolidated Business Performance for the First Three Quarters of Fiscal Year Ending December 31, 2020 (January 1 to September 30, 2020)

(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 September 30, 2020	73,838	(4.8)%	12,661	(8.8)%	13,569	(3.3)%	9,365	(2.1)%
3Q ended October 31, 2019	77,528	(2.4)%	13,886	(17.6)%	14,025	(20.7)%	9,568	(21.8)%

(Note) Comprehensive income: 3Q ended September 30, 2020 ¥8,575 million (4.6%)
 3Q ended October 31, 2019 ¥8,202 million (23.3% negative)

	Net Income per Share (¥)	Diluted Net Income per Share (¥)
3Q ended September 30, 2020	78.25	—
3Q ended October 31, 2019	79.91	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
3Q ended September 30, 2020	88,811	70,080	76.0
FY ended December 31, 2019	90,491	70,463	74.8

(Reference) Shareholders' Equity: 3Q ended September 30, 2020 ¥67,475 million
 FY ended December 31, 2019 ¥67,722 million

2. Cash Dividends

	Annual Dividend (¥)				
	1Q-end	2Q-end	3Q-end	Year-end	Total
FY ended December 31, 2019	—	35.00	—	35.00	70.00
FY ending December 31, 2020	—	36.00	—		
FY ending December 31, 2020 (Forecast)				36.00	72.00

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

3. Consolidated Business Performance Forecasts for the Fiscal Year Ending December 31, 2020 (January 1 to December 31, 2020)

(% 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	99,000	—	14,000	—	15,100	—	9,800	—	81.88

(Notes) 1. Revision of forecasts from the most recent announcement: Yes

2. The previous consolidated accounting year was the 11 months from February 1, 2019 to December 31, 2019 due to the change in fiscal period. As such, year on year changes have not been included in the above table.

Notes

(1) Changes in major subsidiaries (or changes in specific subsidiaries that affect the scope of consolidation) 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 September 30, 2020: 121,653,486

FY ended December 31, 2019: 121,653,486

2) Amount of treasury stock at the period-end

3Q ended September 30, 2020: 2,017,658

FY ended December 31, 2019: 1,926,426

3) Average number of shares outstanding during the period (quarter accumulation)

3Q ended September 30, 2020: 119,688,777

3Q ended October 31, 2019: 119,751,859

(Note) Amount of treasury stock at the period-end includes Company shares held by the board incentive plan (BIP) trust for compensation of directors (124,800 shares as of 3Q ended September 30, 2020; 33,600 shares as of FY ended December 31, 2019). Company shares held by the BIP trust for compensation of directors are also included in the treasury stock subtracted in the calculation of the average number of shares outstanding during the period.

* 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. Quarterly Consolidated Financial Statements and Main Notes	5
(1) Quarterly Consolidated Balance Sheets	5
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income	7
Quarterly Consolidated Statement of Income (Scope of Consolidation of Third Quarter)	7
Quarterly Consolidated Statement of Comprehensive Income (Scope of Consolidation of Third Quarter).....	8
(3) Notes on Consolidated Financial Statements	9
(Notes Regarding Going Concern Assumptions).....	9
(Notes Regarding Substantial Changes in Shareholders' Equity).....	9
(Segment Information)	9

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

(1) Explanation of Business Performance

Regarding the business environment surrounding the Group during the consolidated first nine-month period under review, the spread of coronavirus disease 2019 (COVID-19) caused a continued decline in global economic activities. In Japan, although restrictions on economic activities (voluntary decision to stay home by consumers, etc.) have been relaxed and movement towards a slight recovery has been observed, tough conditions continue. In countries throughout the world, economic activities have stagnated due to factors such as the extension and restatement of travel restrictions, behavioral restrictions, and lockdowns (city closures) by governments. Currently, it is impossible to predict when COVID-19 will end and uncertainty toward the future remains.

Amid such economic circumstances, the Group announced the Seventh Medium-Term Business Plan (for the period between the fiscal year ending December 2020 and the fiscal year ending December 2022) in February 2020, and formulated three basic strategies (brand strategy, core product strategy, and regional strategy). In the Plan, with a focus on these basic strategies, the Group will work to implement various measures for business growth, as well as to realize our purpose which is “we want to make the world more baby-friendly by furthering our commitment to understanding and addressing babies' unique needs.”

Business performance during the consolidated first nine-month period under review was as follows. Net sales amounted to ¥73,838 million (down 4.8% YOY).

Regarding earnings, due to factors such as decreased sales and an increased selling, general and administrative expense ratio, operating income was ¥12,661 million (down 8.8% YOY), ordinary income was ¥13,569 million (down 3.3% YOY), and quarterly net income attributable to owners of parent was ¥9,365 million (down 2.1% 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\$: 107.55 yen (109.12 yen)
- 1 CNY: 15.37 yen (15.89 yen)

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

Previously, this report consisted of information from six Group reporting segments: the Domestic Baby & Mother Care Business, Child Care Service Business, Health & Elder Care Business, China Business, Singapore Business, and Lansinoh Business. However, as a result of the reorganization of December 16, 2019, from the consolidated first quarter of the current fiscal year, the Japan Business segment now aggregates the manufacturing and sales business conducted outside the Group by domestic subsidiaries included in the segments of Domestic Baby & Mother Care Business, Child Care Service Business, Health & Elder Care Business, and Other. As a result, this report now consists of four segments.

Each segment is outlined below.

The following year-on-year comparisons are based on figures calculated using the calculation method after changing the figures for the same period of the previous year.

Japan Business

This segment consists of the Domestic Baby & Mother Care Business, Child Care Service Business, and Health & Elder Care Business. Overall net sales in this segment were ¥33,991 million (down 7.2% YOY) and segment profit was ¥2,446 million (down 30.4% YOY).

During the consolidated first nine-month period under review, the spread of COVID-19 caused the number of foreign tourists visiting Japan to continue to decrease drastically compared to the same period of the previous year. In the category of products for babies and mothers, this caused net sales

of product groups with particularly high inbound demand to decrease year-on-year. On the other hand, in July, we launched the new product “Microwavable Packed Soft Rice for Babies,” which makes it possible to prepare freshly cooked Rice porridge simply by warming it in the microwave for 50 seconds. Then, in August, we launched the “Adaptor for the Breastmilk Storage Bags,” which can be directly connected to breast pumps during pumping for easy storage of breast milk.

In the category of products for health and elder care, during the consolidated first nine-month period under review, a higher level of hygienic awareness led to increased demand for some products, and net sales rose year-on-year.

Regarding child care service, we currently provide services to a total of seventy-one facilities throughout Japan, and shall continue to develop this business further while striving to improve the quality of service content.

Profit was down year-on-year due to factors including a decrease in net sales, mainly for products for babies and mothers, and a declining gross profit margin caused by a worsening product mix.

All consumer events that are part of the Group’s efforts for direct communication have been canceled in order to prevent the spread of COVID-19. The “FUNRIDE Project—Let’s Overcome COVID-19 Together!” aims to alleviate the anxiety of mothers and fathers during the ongoing pandemic by providing helpful information such as “How Parents Feel about Going Out During COVID-19” and “Safe Outdoor Activities” to support family outings as well as organizing online seminars for current and expecting mothers.

China Business

Net sales in this segment amounted to ¥27,257 million (down 0.3% YOY), and segment profit also decreased to ¥9,729 million (down 0.8% YOY).

The spread of COVID-19 in China appears to be nearing an end. The distribution of goods in urban areas has recovered to almost normal levels, and corporate activities and consumption activities are also recovering. Although sales continued to grow in the e-commerce channel that is the focus of the Group, tough conditions continued in offline channels. Profit was down slightly year-on-year due to factors including a decrease in gross profit caused by a decline in net sales, as well as an increase in distribution expenses.

Regarding net sales in China on a local currency basis, sales of nursing bottles (our core products) and skincare products were strong, and overall net sales increased year-on-year.

Singapore Business

Net sales of the segment amounted to ¥9,617 million (down 7.3% YOY), and segment profit decreased to ¥1,745 million (down 1.0% YOY).

In the ASEAN region and India, which are areas supervised by this segment, COVID-19 continued to spread and have a significant impact. This is especially true in India, where sales office and factory locations were closed for approximately eight weeks from late March to the end of May.

Furthermore, sales activity in India continue to be limited due to the severe conditions of the pandemic. In Malaysia, the sales office was closed for approximately seven weeks from late March to the mid-May. However, sales activities have currently been resumed and sales are recovering gradually. Nevertheless, they have not reached normal levels. With a few exceptions, other countries and regions are also being strongly impacted by factors such as customers voluntarily deciding to stay home and stagnation of corporate activities. As a result, net sales in this segment were down year-on-year.

Profit was down slightly year-on-year due to the inability to cover the decrease in gross profit caused by a decline in net sales, despite an improved cost rate due to increased operation at some plants.

Lansinoh Business

Net sales of the segment amounted to ¥9,498 million (down 4.7% YOY), and segment profit decreased to ¥1,392 million (down 4.9% YOY).

COVID-19 has severely impacted North America. However, sales of nipple care creams, our main product, and breast-feeding related products including consumable products were strong, particularly in the e-commerce channel. Due to the spread of COVID-19, conditions continue to be

tough for sales of breast pumps through the DME (Durable Medical Equipment) channel and the hospital/maternity clinic channel. Moving forward, the Group will work to achieve recovery in these channels. Furthermore, in order to further expand business in the Chinese market (Lansinoh Laboratories Shanghai) and Europe, in addition to strengthening e-commerce, the Group is implementing marketing activities, brand strengthening activities, etc.

(2) Explanation of Financial Position

(Assets)

As of September 30, 2020, our Group recorded total assets of ¥88,811 million, down ¥1,680 million from the previous consolidated fiscal year ended December 31, 2019. Both current and fixed assets decreased by ¥444 million and ¥1,236 million, respectively.

Current assets decreased mainly due to a decrease in notes and accounts receivable - trade of ¥1,714 million, despite increases in cash and deposits of ¥311 million and in merchandise and finished goods of ¥582 million.

Fixed assets decreased mainly due to a decrease in tangible fixed assets, namely buildings and structures, of ¥501 million, as well as a decrease in other intangible fixed assets of ¥651 million.

(Liabilities)

As of September 30, 2020, our Group recorded total liabilities of ¥18,730 million, down ¥1,297 million from the previous consolidated fiscal year ended December 31, 2019. Both current and fixed liabilities decreased by ¥1,120 million and ¥177 million, respectively.

Current liabilities decreased mainly due to decreases in electronically recorded obligations - operating of ¥328 million and in other current liabilities of ¥1,480 million, despite increases in income taxes payable of ¥205 million and in accrued bonuses to employees of ¥561 million.

Fixed liabilities decreased mainly due to a decrease in other fixed liabilities of ¥251 million.

(Net Assets)

As of September 30, 2020, our Group recorded total net assets of ¥70,080 million, down ¥383 million from the previous consolidated fiscal year ended December 31, 2019.

Net assets decreased mainly due to a decrease in foreign currency translation adjustment of ¥705 million, despite an increase in retained earnings of ¥862 million.

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

The global pandemic of COVID-19 infections seems to be nearing an end in China. Nevertheless, infections continue to spread in other countries and regions, and the future of the entire world continues to be uncertain.

Under these circumstances, upon considering the business results for the consolidated first nine-month period under review and the impact of COVID-19 in the future, on November 5, 2020, we revised our forecast of business results for the full fiscal year that was announced on June 4, 2020 as follows: net sales of ¥99,000 million, operating income of ¥14,000 million, ordinary income of ¥15,100 million, and net income attributable to owners of parent of ¥9,800 million.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	At December 31, 2019	At September 30, 2020
ASSETS		
I. Current Assets:		
Cash and deposits	32,416	32,727
Notes and accounts receivable - trade	16,588	14,873
Merchandise and finished goods	8,144	8,726
Work in process	400	376
Raw materials and supplies	2,666	3,125
Other current assets	1,933	1,870
Allowance for doubtful accounts	(216)	(211)
Total Current Assets	61,933	61,488
II. Fixed Assets:		
1. Tangible Fixed Assets:		
Buildings and structures, net	7,058	6,556
Land	5,865	5,983
Other tangible fixed assets, net	9,570	9,786
Total Tangible Fixed Assets	22,494	22,326
2. Intangible Fixed Assets:		
Goodwill	867	658
Other intangible fixed assets	2,996	2,345
Total Intangible Fixed Assets	3,863	3,004
3. Investments and Other Assets:		
Other	2,201	1,992
Allowance for doubtful accounts	(0)	(0)
Total Investments and Other Assets	2,200	1,991
Total Fixed Assets	28,558	27,322
Total Assets	90,491	88,811
LIABILITIES		
I. Current Liabilities:		
Notes and accounts payable - trade	4,900	4,814
Electronically recorded obligations - operating	2,009	1,680
Income taxes payable	1,272	1,478
Accrued bonuses to employees	928	1,490
Provision for sales returns	41	53
Provision for loss on litigation	8	4
Other current liabilities	6,478	4,997
Total Current Liabilities	15,638	14,518
II. Fixed Liabilities:		
Net defined benefit liability	417	411
Provision for share-based remuneration	98	178
Other fixed liabilities	3,873	3,621
Total Fixed Liabilities	4,389	4,212
Total Liabilities	20,028	18,730

(Millions of yen)

	At December 31, 2019	At September 30, 2020
NET ASSETS		
I. Shareholders' Equity:		
Capital stock	5,199	5,199
Capital surplus	5,179	5,179
Retained earnings	58,979	59,842
Treasury stock	(1,088)	(1,477)
Total Shareholders' Equity	68,269	68,743
II. Accumulated Other Comprehensive Income:		
Valuation difference on available-for-sale securities	25	11
Foreign currency translation adjustment	(572)	(1,278)
Total Accumulated Other Comprehensive Income	(547)	(1,267)
III. Non-controlling Interests	2,741	2,604
Total Net Assets	70,463	70,080
Total Liabilities and Net Assets	90,491	88,811

(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, 2019	Nine months ended September 30, 2020
I. Net Sales	77,528	73,838
II. Cost of Sales	37,875	36,568
Gross profit	39,652	37,269
Reversal of provision for sales returns	30	41
Provision for sales returns	35	53
Adjusted gross profit	39,647	37,258
III. Selling, General and Administrative Expenses	25,761	24,596
Operating Income	13,886	12,661
IV. Non-operating Income:		
Interest income	143	114
Subsidy income	760	720
Other non-operating income	160	405
Total Non-operating Income	1,064	1,241
V. Non-operating Expenses:		
Interest expenses	9	2
Sales discounts	347	179
Foreign exchange losses	500	66
Other non-operating expenses	68	84
Total Non-operating Expenses	925	332
Ordinary Income	14,025	13,569
VI. Extraordinary Income:		
Gain on sales of fixed assets	4	3
Gain on sales of investment securities	113	33
Total Extraordinary Income	118	36
VII. Extraordinary Loss:		
Loss on sales of fixed assets	8	21
Loss on disposal of fixed assets	90	57
Loss on sales of shares of subsidiaries and associates	—	170
Impairment loss	—	7
Loss on sales of golf club memberships	1	—
Total Extraordinary Loss	100	257
Income before Income Taxes	14,044	13,349
Income taxes - current	4,360	3,955
Income taxes - deferred	(76)	(157)
Total Corporate Income Tax	4,284	3,798
Net Income	9,759	9,551
Net Income Attributable to Non-controlling Interests	191	186
Net Income Attributable to Owners of Parent	9,568	9,365

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

(Millions of yen)

	Nine months ended October 31, 2019	Nine months ended September 30, 2020
Net Income	9,759	9,551
Other Comprehensive Income		
Valuation difference on available-for-sale securities	0	(14)
Foreign currency translation adjustment	(1,558)	(961)
Total Other Comprehensive Income	(1,557)	(975)
Quarterly Comprehensive Income	8,202	8,575
(Break down)		
Quarterly comprehensive income on parent company	7,951	8,644
Quarterly comprehensive income on non-controlling interests	250	(68)

**(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, 2019

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

(Millions of yen)

	Reporting Segment				Total	Adjustments (Note 1)	Amount Accounted on Quarterly Consolidated Statement of Income (Note 2)
	Japan Business	China Business	Singapore Business	Lansinoh Business			
Net sales							
Net sales to external customers	34,689	26,800	6,166	9,870	77,528	—	77,528
Internal sales or exchange between segments	1,941	526	4,209	94	6,772	(6,772)	—
Total	36,631	27,327	10,376	9,965	84,300	(6,772)	77,528
Segment profit	3,513	9,811	1,763	1,464	16,553	(2,667)	13,886

(Notes)

1. The negative amount of ¥2,667 million from adjustments in segment profit includes ¥150 million in elimination of intersegment transactions and negative ¥2,817 million in non-allocable operating expenses. Non-allocable operating expenses are administrative costs of our Group.
2. Segment profits are adjusted to operating income in the quarterly consolidated statement of income.

Nine months ended September 30, 2020

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

(Millions of yen)

	Reporting Segment				Total	Adjustments (Note 1)	Amount Accounted on Quarterly Consolidated Statement of Income (Note 2)
	Japan Business	China Business	Singapore Business	Lansinoh Business			
Net sales							
Net sales to external customers	31,586	27,040	5,740	9,470	73,838	—	73,838
Internal sales or exchange between segments	2,405	216	3,876	28	6,527	(6,527)	—
Total	33,991	27,257	9,617	9,498	80,365	(6,527)	73,838
Segment profit	2,446	9,729	1,745	1,392	15,314	(2,653)	12,661

(Notes)

1. The negative amount of ¥2,653 million from adjustments in segment profit includes negative ¥154 million in elimination of intersegment transactions and negative ¥2,498 million in non-allocable operating expenses. Non-allocable operating expenses are administrative costs of our Group.
2. Segment profits are adjusted to operating income in the quarterly consolidated statement of income.

2. Items Regarding Changes, etc., to Reporting Segments

Previously, this report consisted of information from six Group reporting segments: the Domestic Baby & Mother Care Business, Child Care Service Business, Health & Elder Care Business, China Business, Singapore Business, and Lansinoh Business. However, as a result of the reorganization of December 16, 2019, from the consolidated first quarter of the current

fiscal year, the Japan Business segment now aggregates the manufacturing and sales business conducted outside the Group by domestic subsidiaries included in the segments of Domestic Baby & Mother Care Business, Child Care Service Business, Health & Elder Care Business, and Other. As a result, this report now consists of four segments.

Segment information for the previous consolidated nine-month period was created using the calculation method for segment profit after the changes were made.