Summary of Financial Results for the Third Quarter of Fiscal Year Ending January 2018 [Japanese Standards] (Consolidated)

December 4, 2017

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 8, 2017
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, 2018 (February 1 to October 31, 2017)

(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, 2017	75,350	7.9%	14,938	23.8%	15,171	24.7%	10,434	21.8%
3Q ended October 31, 2016	69,806	2.2%	12,071	8.5%	12,167	6.1%	8,566	10.0%

(Note) Comprehensive income: 3Q ended October 31, 2017 ¥11,020 million (233.3%)
3Q ended October 31, 2016 ¥3,306 million (47.9% negative)

	Net Income per Share (¥)	Diluted Net Income per Share (¥)
3Q ended October 31, 2017	87.13	—
3Q ended October 31, 2016	71.53	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
3Q ended October 31, 2017	77,418	57,628	72.5
FY ended January 31, 2017	78,889	53,736	66.4

(Reference) Shareholders' Equity: 3Q ended October 31, 2017 ¥ 56,102 million
FY ended January 31, 2017 ¥ 52,387 million

2. Cash Dividends

	Annual Dividend (¥)				
	1Q-end	2Q-end	3Q-end	Year-end	Total
FY ended January 31, 2017	—	25.00	—	28.00	53.00
FY ending January 31, 2018	—	31.00	—		
FY ending January 31, 2018 (Forecast)				31.00	62.00

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

3. Consolidated Business Performance Forecasts for the Fiscal Year Ending January 31, 2018 (February 1, 2017 to January 31, 2018)

(% 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	101,200	6.9%	18,700	16.8%	18,600	13.0%	13,000	16.9%	108.55

(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, 2017: 121,653,486
FY ended January 31, 2017: 121,653,486
2) Amount of treasury stock at the period-end
3Q ended October 31, 2017: 1,892,309
FY ended January 31, 2017: 1,891,943
3) Number of average shares outstanding during the period (quarter accumulation)
3Q ended October 31, 2017: 119,761,317
3Q ended October 31, 2016: 119,761,778

* This quarterly financial results report is exempt from quarterly review.

* 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

(1) Explanation of Business Performance
1) Overview of Operation

During the consolidated nine-month period under review, 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. On the other hand, a latent sense of uncertainty remained due to geopolitical risks etc.
Amid such economic circumstances, the Group developed the sixth medium-term business plan (for the period between the fiscal year ending 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 first 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 strategies for each of our business and function on the basis of the above business policies. As the result, net sales amounted to ¥75,350 million (up 7.9% YOY), as supported by sales increases mainly in Japan and China. Regarding earnings, operating income rose to ¥14,938 million (up 23.8% YOY) thanks to a reduction of approximately 2.1 percentage points in the sales cost ratio from the previous term. Ordinary income recorded ¥15,171 million (up 24.7% YOY), and net income attributable to owners of parent also increased to ¥10,434 million (up 21.8% 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$: 111.88 yen (108.56 yen)
・1 CNY: 16.46 yen (16.47 yen)
Note: Figures in parentheses represent the exchange rate in the same period of the previous fiscal year.

Our Group has 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." Each segment is outlined below.
Please take note that in order to explain the profit status of each segment in a more detailed manner, we decided to record expenses in non-allocable operating expenses associated with the Research and Development Department, which had been included in the Adjustment section so far, in the segment profit of each reporting segment starting from the consolidated first three-month period of the current fiscal year.
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 ¥25,840 million (up 6.9% YOY). Segment profit increased to ¥4,605 million (up 22.7% YOY).

In this segment, sales continued to grow steadily thanks to the continuing demand resulting from inbound tourism, as well as the release of the following new products in August: “Baby Milk Lotion Uruoi Plus,” which contains shea butter (moisturizing ingredient), and “Aka-chan no Yasaicha,” the first ever blended tea for babies made using vegetables. Baby strollers, one of our core product categories, continued to perform well. 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 28 times. A total of approximately 2,500 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 ¥5,623 million (up 1.8% YOY). Segment profit decreased to ¥141 million (down 7.1% YOY). During the nine-month period under review, we have launched three in-company child-care facilities, which we are currently operating while striving to improve the service quality.

Health & Elder Care Business

Net sales in this segment amounted to ¥5,059 million (down 2.6% YOY), due to weak sales of core products such as bottom wipes, body wipes and skin care products, which faced fiercer competition at retail store fronts, and segment profit decreased to ¥315 million (down 13.9% YOY). We will continue to focus on further strengthening our sales activities toward retail stores and nursing care facilities, and will ensure that the quality of our nursing care services is improved.

Overseas Business

Net sales in this segment amounted to ¥18,468 million (up 10.6% YOY) due in part to depreciation of the yen. Segment profit also increased to ¥4,547 million (up 26.3% YOY), thanks to the improvement of gross profit margin, as well as effective use of selling, general and administrative expenses. In North America and Europe, where we operate business mainly through Lansinoh Laboratories, Inc., one of our consolidated subsidiaries, sales of breastfeeding-related products including our flagship products such as nipple care cream, breast pumps and milk bags continued to grow at a good pace. In addition, sales activity in China through Lansinoh Laboratories Shanghai, our new initiative started last year, also continued to expand steadily, and we will make efforts to expand our business there.

China Business

Net sales in this segment increased to ¥24,548 million (up 13.9% YOY), because sales of core products such as nursing bottles and nipples and skincare products remained strong. Segment profit increased to ¥7,443 million (up 19.9% YOY).

In this segment, we released new nursing bottles, cups and pacifiers featuring Disney designs in May 2017. These met with a favorable reception among customers and sales are expanding steadily, not only on the E-commerce market but also at stores.

In addition, we will continue to strengthen our activities toward the E-commerce market, which is expected to grow further in the future; we will utilize social networking services further for the 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 touch points with customers and expand our operations.

Other Businesses
Net sales of the segment amounted to ¥962 million (up 0.5% YOY), and the segment profit stood at ¥92 million (down 30.0% YOY).

(2) Explanation of Financial Position

(Assets)
As of October 31, 2017, our Group recorded total assets of ¥77,418 million, down ¥1,470 million from the previous consolidated fiscal year ended January 31, 2017. Current assets decreased by ¥1,870 million, while fixed assets increased by ¥400 million.
Current assets decreased mainly due to a decrease in cash and deposits of ¥4,375 million, despite increases in merchandise and finished goods of ¥900 million and in raw materials and supplies of ¥670 million.
Fixed assets increased mainly due to an increase in other intangible fixed assets of ¥478 million.

(Liabilities)
As of October 31, 2017, our Group recorded total liabilities of ¥19,790 million, down ¥5,361 million from the previous consolidated fiscal year ended January 31, 2017. Current liabilities decreased by ¥5,364 million, while fixed liabilities increased by ¥2 million.
Current liabilities decreased mainly due to decreases in short-term borrowings and in current portion of long-term loans payable of ¥683 million and ¥5,000 million, respectively, despite an increase in electronically recorded obligations – operating of ¥406 million.
Fixed liabilities increased, mainly because provision for directors and corporate auditors' retirement benefits increased by ¥61 million and other fixed liabilities by ¥127 million, while provision for special extra retirement payments decreased by ¥208 million after transferring it to current liabilities.

(Net Assets)
As of October 31, 2017, our Group recorded total net assets of ¥57,628 million, up ¥3,891 million from the previous consolidated fiscal year ended January 31, 2017.
Net assets increased mainly due to increases in retained earnings of ¥3,369 million and in foreign currency translation adjustment of ¥352 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 ending 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 Overseas and China 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 first year of our sixth medium-term business plan, we will strive to ensure completion of our plans.
The performance forecast for the entire year, released on March 6, 2017, has been revised upward on September 4, 2017, based on the performance for the six-month period ended July 31, 2017. Therefore, we forecast net sales of ¥101,200 million (up 1.4% compared with the previous forecast), operating income of ¥18,700 million (up 10.0% compared with the previous forecast), ordinary income of ¥18,600 million (up 9.4% compared with the previous forecast) and net income attributable to owners of parent of ¥13,000 million (up 10.2% compared with the previous forecast).

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, 2017	At October 31, 2017
ASSETS		
I. Current Assets:		
Cash and deposits	30,052	25,676
Notes and accounts receivable - trade	16,103	16,403
Merchandise and finished goods	5,328	6,229
Work in process	261	322
Raw materials and supplies	2,013	2,683
Other current assets	1,512	2,147
Allowance for doubtful accounts	(26)	(89)
Total Current Assets	55,244	53,374
II. Fixed Assets:		
1. Tangible Fixed Assets:		
Buildings and structures, net	6,989	6,981
Land	5,683	5,698
Other tangible fixed assets, net	7,590	7,645
Total Tangible Fixed Assets	20,263	20,325
2. Intangible Fixed Assets:		
Goodwill	51	50
Other intangible fixed assets	1,055	1,533
Total Intangible Fixed Assets	1,106	1,584
3. Investments and Other Assets:		
Other	2,293	2,154
Allowance for doubtful accounts	(19)	(19)
Total Investments and Other Assets	2,273	2,134
Total Fixed Assets	23,644	24,044
Total Assets	78,889	77,418
LIABILITIES		
I. Current Liabilities:		
Notes and accounts payable - trade	4,857	4,731
Electronically recorded obligations - operating	1,693	2,100
Short-term borrowings	699	16
Current portion of long-term loans payable	5,000	—
Income taxes payable	2,324	1,854
Accrued bonuses to employees	929	1,555
Reversal of reserve for returned products	73	59
Provision for loss on litigation	37	—
Provision for special extra retirement payments	—	208
Other current liabilities	5,766	5,491
Total Current Liabilities	21,381	16,017
II. Fixed Liabilities:		
Net defined benefit liability	131	152
Provision for directors and corporate auditors' retirement benefits	445	506
Provision for special extra retirement payments	208	—
Other fixed liabilities	2,986	3,114
Total Fixed Liabilities	3,770	3,773
Total Liabilities	25,152	19,790

(Millions of yen)

	At January 31, 2017	At October 31, 2017
NET ASSETS		
I. Shareholders' Equity:		
Capital stock	5,199	5,199
Capital surplus	5,179	5,179
Retained earnings	42,280	45,649
Treasury stock	(948)	(949)
Total Shareholders' Equity	51,711	55,078
II. Accumulated Other Comprehensive Income:		
Valuation difference on available-for-sale securities	47	42
Foreign currency translation adjustment	628	981
Total Accumulated Other Comprehensive Income	676	1,023
III. Non-controlling Interests	1,349	1,525
Total Net Assets	53,736	57,628
Total Liabilities and Net Assets	78,889	77,418

(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, 2016	Nine months ended October 31, 2017
I. Net Sales	69,806	75,350
II. Cost of Sales	36,982	38,340
Gross profit	32,823	37,010
Reversal of reserve for returned products	43	71
Transfer to reserve for returned products	44	52
Adjusted gross profit	32,822	37,029
III. Selling, General and Administrative Expenses	20,751	22,090
Operating Income	12,071	14,938
IV. Non-operating Income:		
Interest income	96	129
Share of profit of entities accounted for using equity method	37	42
Subsidy income	272	327
Other non-operating income	119	142
Total Non-operating Income	526	640
V. Non-operating Expenses:		
Interest expenses	28	5
Sales discounts	271	301
Foreign exchange losses	108	68
Other non-operating expenses	22	32
Total Non-operating Expenses	430	407
Ordinary Income	12,167	15,171
VI. Extraordinary Income:		
Gain on sales of fixed assets	126	3
Gain on sales of investment securities	-	95
Total Extraordinary Income	126	98
VII. Extraordinary Loss:		
Loss on sales of fixed assets	1	6
Loss on disposal of fixed assets	16	46
Loss on liquidation of subsidiaries and associates	46	-
Loss on liquidation of business	35	-
Total Extraordinary Loss	101	53
Income before Income Taxes	12,193	15,216
Income Taxes - current	4,148	4,592
Income Taxes - deferred	(694)	11
Total Corporate Income Tax	3,453	4,603
Net Income	8,739	10,612
Net Income Attributable to Non-controlling Interests	172	177
Net Income Attributable to Owners of Parent	8,566	10,434

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

(Millions of yen)

	Nine months ended October 31, 2016	Nine months ended October 31, 2017
Net Income	8,739	10,612
Other Comprehensive Income		
Valuation difference on available-for-sale securities	0	(5)
Foreign currency translation adjustment	(5,432)	412
Total Other Comprehensive Income	(5,432)	407
Quarterly Comprehensive Income	3,306	11,020
(Break down)		
Quarterly comprehensive income on parent company	3,296	10,782
Quarterly comprehensive income on non-controlling interests	10	237

(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, 2016

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	Overseas Business	China Business	Subtotal				
Net sales										
Net sales to external customers	24,178	5,524	5,195	12,554	21,396	68,848	957	69,806	—	69,806
Internal sales or exchange between segments	—	—	—	4,136	152	4,288	—	4,288	(4,288)	—
Total	24,178	5,524	5,195	16,691	21,548	73,137	957	74,095	(4,288)	69,806
Segment profit	3,752	152	367	3,600	6,210	14,083	131	14,215	(2,143)	12,071

(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 ¥2,143 million from adjustments in segment profit includes ¥124 million in elimination of intersegment transactions, and a negative ¥2,268 million in non-allocable operating expenses. Non-allocable operating expenses are mainly 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, 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	Overseas Business	China Business	Subtotal				
Net sales										
Net sales to external customers	25,840	5,623	5,059	13,511	24,353	74,388	962	75,350	—	75,350
Internal sales or exchange between segments	—	—	—	4,957	194	5,152	—	5,152	(5,152)	—
Total	25,840	5,623	5,059	18,468	24,548	79,540	962	80,502	(5,152)	75,350
Segment profit	4,605	141	315	4,547	7,443	17,054	92	17,146	(2,208)	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 ¥2,208 million from adjustments in segment profit includes a negative ¥22 million in elimination of intersegment transactions, and a negative ¥2,185 million in non-allocable operating expenses. Non-allocable operating expenses are mainly 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.

In order to understand our profit status of each segment in a more detailed manner, we decided to report expenses in non-allocable operating expenses associated with the Research and Development Department, which had been included in the Adjustment section so far, in the segment profit of each reporting segment starting from the consolidated first three-month period of the current fiscal year.

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.