

Summary of Financial Results for the First Quarter of Fiscal Year Ending December 2023 [Japanese Standards] (Consolidated)

May 11, 2023

Name of Listed Company: Pigeon Corporation (Stock code: 7956)
 Listing: Prime Market, Tokyo Stock Exchange
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 Scheduled Filing Date of Quarterly Report: May 12, 2023
 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: Yes (For analysts and institutional investors)

1. Consolidated Business Performance for the First Quarter of Fiscal Year Ending December 31, 2023 (January 1 to March 31, 2023)

(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	
1Q ended March 31, 2023	23,613	8.7%	3,404	13.7%	3,791	(4.5)%	2,438	(6.9)%
1Q ended March 31, 2022	21,714	1.7%	2,994	4.7%	3,971	15.0%	2,617	30.3%

(Note) Comprehensive income: 1Q ended March 31, 2023 ¥3,274 million (34.5% negative)
 1Q ended March 31, 2022 ¥4,997 million (20.0%)

	Net Income per Share (¥)	Diluted Net Income per Share (¥)
1Q ended March 31, 2023	20.38	—
1Q ended March 31, 2022	21.88	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
1Q ended March 31, 2023	101,034	78,608	74.5
FY ended December 31, 2022	101,733	79,952	75.4

(Reference) Shareholders' Equity: 1Q ended March 31, 2023 ¥75,297 million
 FY ended December 31, 2022 ¥76,695 million

2. Cash Dividends

	Annual Dividend (¥)				
	1Q-end	2Q-end	3Q-end	Year-end	Total
FY ended December 31, 2022	—	38.00	—	38.00	76.00
FY ending December 31, 2023	—				
FY ending December 31, 2023 (Forecast)		38.00	—	38.00	76.00

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

3. Consolidated Business Performance Forecasts for the Fiscal Year Ending December 31, 2023 (January 1 to December 31, 2023)

(% 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	100,000	5.3	12,400	1.7	12,400	(7.9)	8,100	(5.6)	67.70

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

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)

1Q ended March 31, 2023: 121,653,486

FY ended December 31, 2022: 121,653,486

2) Amount of treasury stock at the period-end

1Q ended March 31, 2023: 1,985,001

FY ended December 31, 2022: 1,996,448

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

1Q ended March 31, 2023: 119,658,895

1Q ended March 31, 2022: 119,637,155

(Note) Amount of treasury stock at the period-end includes Company shares held by the board incentive plan (BIP) trust for compensation of directors (91,348 shares as of 1Q ended March 31, 2023; 102,956 shares as of FY ended December 31, 2022). 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.

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

(1) Explanation of Business Performance

1) Performance Overview

For the Japanese and global economies, the consolidated first quarter under review was a period of stabilization and recovery tinged with new concerns on the horizon. In the Japanese economy, personal consumption gradually recovered, albeit with weaknesses in some areas. Restrictions imposed during the COVID-19 pandemic were greatly eased, encouraging expectations of an economic rebound coexisting with COVID-19. The global economy, paced by China, continued on their paths of gradual recovery. Nonetheless, prospects remain uncertain in view of the impact of trends such as worldwide monetary tightening, inflation, supply bottlenecks, and fluctuations in financial capital markets.

Against this background, in February 2023 the Pigeon Group announced its Eighth Medium-Term Business Plan (covering the period from the fiscal year ending December 2023 through the fiscal year ending December 2025). To respond flexibly to a business environment that continues to change rapidly worldwide, thereby ensuring itself of sustainable growth, the Group is implementing three basic strategies (brand strategy, core product strategy and regional strategy). Guided by these strategies, the Group will focus on pursuing sustainable growth in existing business fields and on exploring and cultivating new growth fields where it can deploy its unique expertise, thereby proactively rebuilding its operating structure. Moreover, the Group will implement a range of measures to achieve its purpose, which is “to make the world more baby-friendly by furthering our commitment to understanding and addressing babies' unique needs.”

Business results during the consolidated first quarter under review were mixed. Net sales, led by the China Business and Lansinoh Business, and buoyed by impacts such as yen depreciation, grew to ¥23,613 million (up 8.7% YOY). In earnings, higher revenues boosted income and gross profit margin improved by 0.4 points. Operating income rose to ¥3,404 million (up 13.7% YOY), but ordinary income slipped to ¥3,791 million (down 4.5% YOY) and net income attributable to owners of parent retreated to ¥2,438 million (down 6.9% YOY).

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

- 1 US\$: 132.39 yen (116.35 yen)
- 1 CNY: 19.33 yen (18.32 yen)

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

2) Segment Review

The Group has a total of four reporting segments: the Japan Business, China Business, Singapore Business, and Lansinoh Business.

An outline of each segment is given below.

Japan Business

This segment consists of businesses such as the Baby Care Business, Child Care Service Business, and Health & Elder Care Business. Net sales for the entire segment amounted to ¥8,873 million (up 0.3% YOY), and segment profit was ¥439 million (down 19.1% YOY).

In the Baby Care Business (childcare and feminine products), sales trended favorably for certain consumables, such as baby foods, baby beverages and bottom wipes. However, sales of nursing bottles, one of the Group's mainstay product lines, declined YoY on a rebound effect from high initial shipments of the renewed Bonyu Jikkan® nursing bottle series, released in February 2022. Even so, Pigeon nursing bottles maintained an overwhelming 80%-plus share of the Japanese market in price terms. Also in February 2023, the Group launched ME. By Pigeon, an all-new series

of five products addressing the concerns of women in the delicate zone from pregnancy to postnatal, available through outlets such as the Official Pigeon Online Shop. The Group also launched products such as Milkpon W Antiseptic Wash, a wash that simultaneously cleans and sterilizes nursing bottles. Finally, again in February 2023, the Group revised prices on some of its baby products, including nursing bottles and nipples. (Prices for other products, such as strollers, were revised in or after March 2023).

The Group conducted a number of initiatives in direct communications. We offered occasional presentations on Insta Live, a live webcasting service of Instagram, to connect directly and intuitively with customers about the unique features of our products. This service reached over 15,000 viewers, including viewers of archived content. On the Pigeon Info website, the Group continued to strengthen engagement by expanding its roster of content, including information to alleviate parents' anxieties and uncertainties about child-rearing and introductions to Group products.

In products for health and elder care, in February 2023 the Group launched Raku Raku Oshiri Kirei Mist, a spray that transforms toilet paper into a bottom wipe that can be flushed down the toilet, through elder-care specialty shops, drugstores and online stores throughout Japan. Also in February 2023, the Group revised prices on some of its products for health and elder care.

Regarding child care service, the Group provided services at 63 in-company child-care facilities and others during the consolidated first quarter under review. The Group will continue to develop these operations while striving to improve the quality of service content.

China Business

Net sales in this segment amounted to ¥8,600 million (up 9.0% YOY), and segment profit was ¥2,669 million (up 5.4% YOY).

In Mainland China, after the termination of the zero-COVID policy in December 2022, the number of persons infected with COVID-19 continued to explode in multiple areas from December 2022 to early January 2023. At first, impact on customers' consumption habits and the Group's business activities lingered, but recovery set in later, bringing net sales in local-currency terms to roughly the same level as the same period of the previous fiscal year. Core product lines of nursing bottles and nipples, along with skincare products, led this growth. New models were released for the mainstay Shizen Jikkan series of nursing bottles. In skincare, products aimed at children aged three and older, launched in the second half of 2022, turned in robust sales. The Group also engaged vigorously in digital marketing, including livestreaming and posting on social media, while continuing to strengthen sales promotion at bricks-and-mortar stores and activities at hospitals and maternity clinics, in efforts to reap steady expansion of business.

In South Korea, where Group operations are managed through this segment, the Pigeon Group began reorganizing its distribution framework in the consolidated first quarter under review. Using local sales subsidiaries as its base, the Group is strengthening sales and marketing efforts in South Korea, in efforts to attract new customers and reinforce relationships with existing customers.

Singapore Business

Net sales of the segment amounted to ¥3,491 million (up 13.8% YOY), and segment profit was ¥606 million (up 17.8% YOY).

This segment is responsible for operations in the ASEAN region and India. Although in some areas net sales took a breather from the previous year's high growth, factors such as clearance of shipping delays, particularly in exports from Singapore, and the impact of exchange rates, net sales outperformed YoY. Going forward, we will continue to advance the development and launch of products targeting customers in the upper-middle class and above while actively developing sales and marketing activities to achieve market penetration of Group brands.

Lansinoh Business

Net sales of the segment amounted to ¥4,538 million (up 27.8% YOY), and segment profit was ¥347 million (up 106.6% YOY).

In North America, a vital market for the segment, net sales in local-currency terms upheld the firm trend enjoyed in the previous year. In terms of product groups, sales of nipple creams and breast pumps underperformed YoY, affected by the timing of orders from major customers and the like. However, partly as a result of a shortage of powdered milk in the United States, sales of breast-milk storage bags surged YoY, while sales of prenatal and postnatal products outperformed YoY. Earnings increased YoY, buoyed by rising revenues and changes in the product mix, which improved gross profit margin. Although marine transportation expenses trended lower, depletion of inventories from previous fiscal years limited this factor's contribution in the consolidated first quarter under review.

Looking ahead, the Group will expand its lineup in the key segment of breastfeeding-related products and press forward with efforts to strengthen e-commerce and brand development, including in new categories such as prenatal and postnatal care.

(2) Explanation of Financial Position

(Assets)

As of March 31, 2023, our Group recorded total assets of ¥101,034 million, down ¥699 million from the previous consolidated fiscal year ended December 31, 2022. Current assets decreased by ¥2,562 million, while fixed assets increased by ¥1,862 million.

Current assets decreased mainly due to a decrease in cash and deposits of ¥6,241 million, despite increases in merchandise and finished goods of ¥1,744 million and in notes and accounts receivable - trade of ¥1,363 million.

Fixed assets increased mainly due to increases in other tangible fixed assets of ¥1,910 million, and in investments and other assets of ¥309 million.

(Liabilities)

As of March 31, 2023, our Group recorded total liabilities of ¥22,425 million, up ¥644 million from the previous consolidated fiscal year ended December 31, 2022. Current liabilities increased by ¥1,158 million, while fixed liabilities decreased by ¥514 million.

Current liabilities increased mainly because of an increase in income taxes payable of ¥586 million and an increase in notes and accounts payable - trade of ¥479 million, despite a decrease in other current liabilities of ¥397 million.

Fixed liabilities decreased mainly because other fixed liabilities decreased by ¥508 million.

(Net Assets)

As of March 31, 2023, our Group recorded total net assets of ¥78,608 million, down ¥1,343 million from the previous consolidated fiscal year ended December 31, 2022.

Net assets decreased mainly due to an decrease in retained earnings of ¥2,137 million, despite a increase in foreign currency translation adjustment of ¥669 million.

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

The Group announced the Eighth Medium-Term Business Plan (covering the period from the fiscal year ending December 2023 through the fiscal year ending December 2025) in February 2023, identifying “for sustainable growth” as its theme. To respond flexibly to a business environment that continues to change rapidly worldwide, thereby ensuring itself of sustainable growth, the Group is deepening the implementation of three basic strategies (brand strategy, core product strategy and regional strategy) that it began with the Seventh Medium-Term Business Plan. Guided by these strategies, the Group will focus on pursuing sustainable growth in existing business fields, such as its mainstay nursing bottles and skincare products, and on exploring and cultivating new growth fields where it can deploy its unique expertise, thereby proactively rebuilding its operating structure. With the current consolidated fiscal year as the first year of the Eighth Medium-Term Business Plan, the Group will diligently pursue a range of measures aimed at the assured achievement of its plans.

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

(Millions of yen)

	At December 31, 2022	At March 31, 2023
ASSETS		
I. Current Assets:		
Cash and deposits	34,283	28,042
Notes and accounts receivable - trade	15,975	17,338
Merchandise and finished goods	10,529	12,273
Work in process	632	675
Raw materials and supplies	4,156	4,213
Other current assets	1,793	2,268
Allowance for doubtful accounts	(226)	(230)
Total Current Assets	67,143	64,581
II. Fixed Assets:		
1. Tangible Fixed Assets:		
Buildings and structures, net	10,499	10,286
Land	7,559	7,594
Other tangible fixed assets, net	12,074	13,984
Total Tangible Fixed Assets	30,132	31,865
2. Intangible Fixed Assets:		
Goodwill	380	350
Other intangible fixed assets	1,928	1,778
Total Intangible Fixed Assets	2,308	2,129
3. Investments and Other Assets:		
Other	2,149	2,458
Allowance for doubtful accounts	(0)	(0)
Total Investments and Other Assets	2,149	2,458
Total Fixed Assets	34,590	36,453
Total Assets	101,733	101,034
LIABILITIES		
I. Current Liabilities:		
Notes and accounts payable - trade	5,066	5,546
Electronically recorded obligations - operating	1,542	1,891
Short-term borrowings	—	90
Income taxes payable	989	1,575
Accrued bonuses to employees	920	972
Provision for loss on litigation	7	7
Other current liabilities	7,036	6,638
Total Current Liabilities	15,563	16,722
II. Fixed Liabilities:		
Net defined benefit liability	566	540
Provision for share-based remuneration	225	245
Other fixed liabilities	5,425	4,917
Total Fixed Liabilities	6,217	5,703
Total Liabilities	21,781	22,425

(Millions of yen)

	At December 31, 2022	At March 31, 2023
NET ASSETS		
I. Shareholders' Equity:		
Capital stock	5,199	5,199
Capital surplus	5,132	5,132
Retained earnings	60,762	58,624
Treasury stock	(1,387)	(1,339)
Total Shareholders' Equity	69,706	67,617
II. Accumulated Other Comprehensive Income:		
Valuation difference on available-for-sale securities	26	47
Foreign currency translation adjustment	6,962	7,632
Total Accumulated Other Comprehensive Income	6,989	7,680
III. Non-controlling Interests	3,257	3,311
Total Net Assets	79,952	78,608
Total Liabilities and Net Assets	101,733	101,034

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

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

(Millions of yen)

	Three months ended March 31, 2022	Three months ended March 31, 2023
I. Net Sales	21,714	23,613
II. Cost of Sales	11,243	12,122
Gross profit	10,470	11,490
III. Selling, General and Administrative Expenses	7,475	8,086
Operating Income	2,994	3,404
IV. Non-operating Income:		
Interest income	44	58
Dividend income	12	11
Subsidy income	470	372
Foreign exchange gains	337	—
Other non-operating income	142	50
Total Non-operating Income	1,007	492
V. Non-operating Expenses:		
Interest expenses	21	22
Foreign exchange losses	—	68
Other non-operating expenses	10	14
Total Non-operating Expenses	31	106
Ordinary Income	3,971	3,791
VI. Extraordinary Income:		
Gain on sales of fixed assets	4	2
Gain on sales of investment securities	—	19
Total Extraordinary Income	4	21
VII. Extraordinary Loss:		
Loss on sales of fixed assets	0	1
Loss on disposal of fixed assets	20	4
Loss on tax purpose reduction entry of non-current assets	—	19
Total Extraordinary Loss	20	25
Income before Income Taxes	3,954	3,787
Income taxes - current	1,730	1,916
Income taxes - deferred	(457)	(619)
Total Corporate Income Tax	1,273	1,296
Net Income	2,681	2,491
Net Income Attributable to Non-controlling Interests	63	52
Net Income Attributable to Owners of Parent	2,617	2,438

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

(Millions of yen)

	Three months ended March 31, 2022	Three months ended March 31, 2023
Net Income	2,681	2,491
Other Comprehensive Income		
Valuation difference on available-for-sale securities	(0)	21
Foreign currency translation adjustment	2,316	761
Total Other Comprehensive Income	2,315	783
Quarterly Comprehensive Income	4,997	3,274
(Break down)		
Quarterly comprehensive income on parent company	4,779	3,127
Quarterly comprehensive income on non-controlling interests	218	147

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

Not applicable.

(Notes Regarding Substantial Changes in Shareholders' Equity)

Not applicable.

(Segment Information)

Three months ended March 31, 2022

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	8,417	7,733	2,014	3,547	21,714	—	21,714
Internal sales or exchange between segments	428	158	1,054	3	1,645	(1,645)	—
Total	8,846	7,892	3,069	3,551	23,359	(1,645)	21,714
Segment profit	543	2,532	514	168	3,758	(764)	2,994

(Notes)

1. The negative amount of ¥764 million from adjustments in segment profit includes ¥54 million in elimination of intersegment transactions and negative ¥819 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.

Three months ended March 31, 2023

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	8,318	8,341	2,417	4,535	23,613	—	23,613
Internal sales or exchange between segments	555	259	1,073	2	1,890	(1,890)	—
Total	8,873	8,600	3,491	4,538	25,503	(1,890)	23,613
Segment profit	439	2,669	606	347	4,062	(658)	3,404

(Notes)

1. The negative amount of ¥658 million from adjustments in segment profit includes ¥76 million in elimination of intersegment transactions and negative ¥734 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.