

# Pigeon's Future Management Outlook

(Securities code: 7956)

July, 2009

Akio Okoshi

President and Chief Operating Officer

# The Pigeon Group

# Basic Philosophy and Business Domains

Corporate motto

Only **love** generates **love**.

Basic philosophy

**Love**

Providing products and services to convey our **love** for all people who need assistance through pregnancy, giving birth, baby care and nursing care

Business domains

Baby-care products & women's care products

Child-rearing support services

Healthcare (products and services)

**Domestic development**

**Global development**

# Corporate Information

Established	August 15, 1957
Share listings	
OTC	September 1988
TSE (Second Section)	July 1995
TSE (First Section)	July 1997
Paid-in capital	¥5,199,597 thousand
Consolidated subsidiaries	15 (7 in Japan; 8 overseas)
Equity-method affiliates	2 (1 in Japan; 1 overseas)
Employees (consolidated)	2,226 persons (As of January 31, 2009)
Board of Directors	7 members
Board of Corporate Auditors	4 members (including 2 outside auditors)
Managing Officers	9 persons

(¥ millions)

	Jan. 2008	Jan. 2009	Jan. 2010 (Forecast)
Consolidated net sales	49,237	53,092	56,000
Consolidated ordinary income	3,177	4,293	4,350

# PIGEON GROUP

## Pigeon Home Products Co., Ltd. 100%

Manufacture and sales of toiletry products, planning and sales of Pigeon's health foods



マタニティと赤ちゃんがいるママのためのショッピングサイト  
**pigeon mall**

**Pigeon Will Co., Ltd. 100%**  
Sales of maternity and infant products



**Domestic consolidated subsidiaries**

Company name  
Controlling share  
Description of business

## Pigeon Hearts Co., Ltd. 100%

Consignment operation of daycare and child-minding centers



**Overseas consolidated subsidiaries**



**Pigeon Land (Shanghai) Co., Ltd. 100%**  
Operation of child-care centers

## Pigeon (Shanghai) Co., Ltd. 100%

Manufacture and sale of baby-care, child-care, and maternity-care products

## Pigeon Singapore Pte. Ltd. 100%

Domestic and overseas sales of baby-care and maternity-care products



**PT. Pigeon Indonesia 35%**  
Manufacture of baby-care products



## PHP Ibaraki Co., Ltd. 100%

Manufacture and sales of wet-tissues

Pigeon Corporation  
Hitachi-Ota  
distribution center

## Kuraflex-Ibaraki Co., Ltd. 49%

Manufacture of non-woven fabrics



## PHP Hyogo Co., Ltd. 100%

Manufacture of Pigeon-brand products

Pigeon Corporation  
Kanzaki  
distribution center



## PIGEON CORPORATION



- Domestic sales
- Export sales
- Child-minding services
- Group business management
- Research & development
- Domestic distribution control

## Pigeon Tahira Co., Ltd. 85.6%

Manufacture and sale nursing-care products



## Pigeon Manaka Co., Ltd. 67%

Nursing-care services for the elderly  
Sales of related products

## Lansinoh Laboratories, Inc. 100%

Sales of breast-feeding-related products



## Pigeon Manufacturing (Shanghai) Co., Ltd. 100%

Manufacture of toiletry products and baby-care products



**Thai Pigeon Co., Ltd. 53%**  
Manufacture of baby-care products

**Pigeon Industries (Thailand) Co., Ltd. 97.5%**  
Manufacture and sales of wet-wipes and breast pads



# Medium-Term Plan: Business Policies (February 2008 – January 2011)

## Becoming a Global Company Challenges and Independence

### ■ Promote globalization of businesses in baby-care products and women's care products

- China: Expand sales network, share of shelf space, and product categories; bolster supply system
- North America: Expand business in breastfeeding-related fields
- New markets: Cultivate new markets

### ■ Reinforce existing domestic businesses; nurture new businesses

- Baby-care products: Promote product development and direct communication; improve earnings
- IT business: Pursue synergies with portal site and mail order site
- Child-rearing support: Offer high-quality services; promote growth categories
- Healthcare: Integrate Habinurse brand; foster Recoup brand

# Globalization of Baby-Care Products

**Bolstering the business as the largest growth driver of the group**

Market

**Attaching importance to China and the United States, while starting to develop the Indian market**

## **China**

Aggressively expanding the sales system and new products

## **United States and Europe**

LANVINOH

Increasing market share in breastfeeding-related products and expanding categories around them, including creams for diaper rash

## **Other existing markets**

Stepping up marketing in accordance with local characteristics

## **New markets**

Developing future growth markets; pursuing a strategy for entering the Indian market based on market research

Internal development

**Bolstering the operating base by improving product supply and development systems and developing human resources**

# Development of Domestic Operations (1)

**Creating new market opportunities, especially through differentiation in research**

## **New challenges**

**IT business**

**pigeon mall**

**Products in new categories**

## **Existing categories**



**Developing products that can sell globally**

**Differentiation in research and development**



**Providing products that involve information to attract the attention of customers**





# Development of Domestic Operations (2)

## Acquiring new Pigeon fans

### Targets

Elderly people who have begun to experience difficulties, especially people in their seventies

Feeling uneasy about collecting information

Aware of a decline in physical functions

### Permeation of the brand

Aggressively developing initiatives to attract customers' attention



### Aging solutions

Developing products from research

Growth

Decline

Walking

Using hands

Eating

Birth

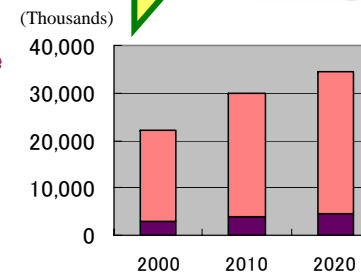
Aging

Launching new products in stages, beginning with products related to walking



Estimate of Future Population in Japan (age 65 and older)

Source: Pigeon estimates



Target market for Recoup brand

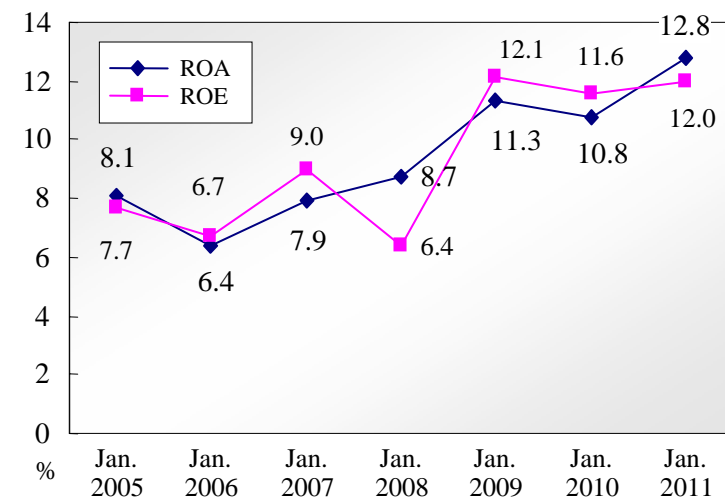
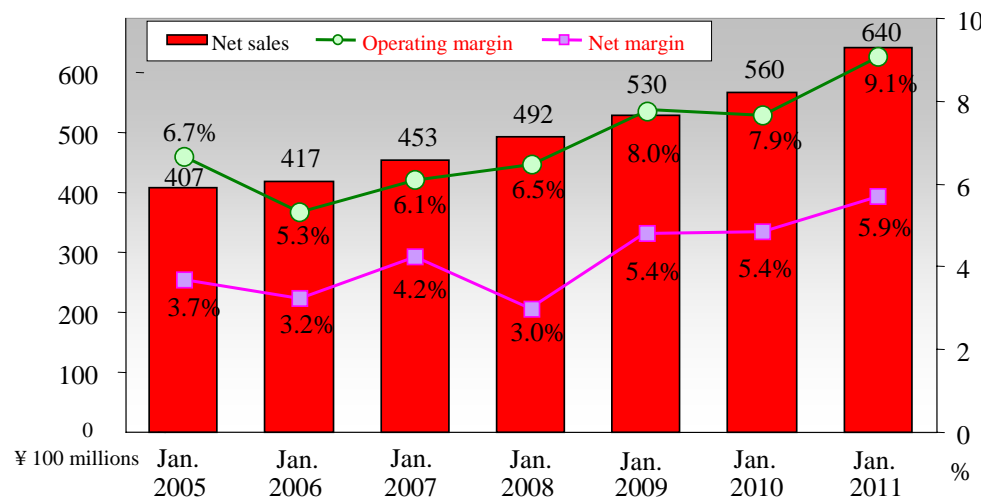
# Quantitative Targets

¥ 100 millions	Jan. 2008	Jan. 2009	Jan. 2010	Jan. 2011
Net sales	492	530	560	640
Gross profit	186	201	211	247
Operating income	31	42	44	58
Ordinary income	31	42	43	56
Net income	14	28	30	38
EPS (¥)	73.90	142.75	149.88	165
Gross margin	37.9%	38.0%	37.7%	38.7%
Operating margin	6.5%	8.0%	7.9%	9.1%
Ordinary margin	6.5%	8.1%	7.8%	8.8%
Net margin	3.0%	5.4%	5.4%	5.9%
ROA	8.7%	11.3%	10.8%	12.8%
ROE	6.4%	12.1%	11.6%	12.0%

Growth rate (base year: Jan. 2008)
30.0%
32.8%
81.7%
76.2%
158.3%

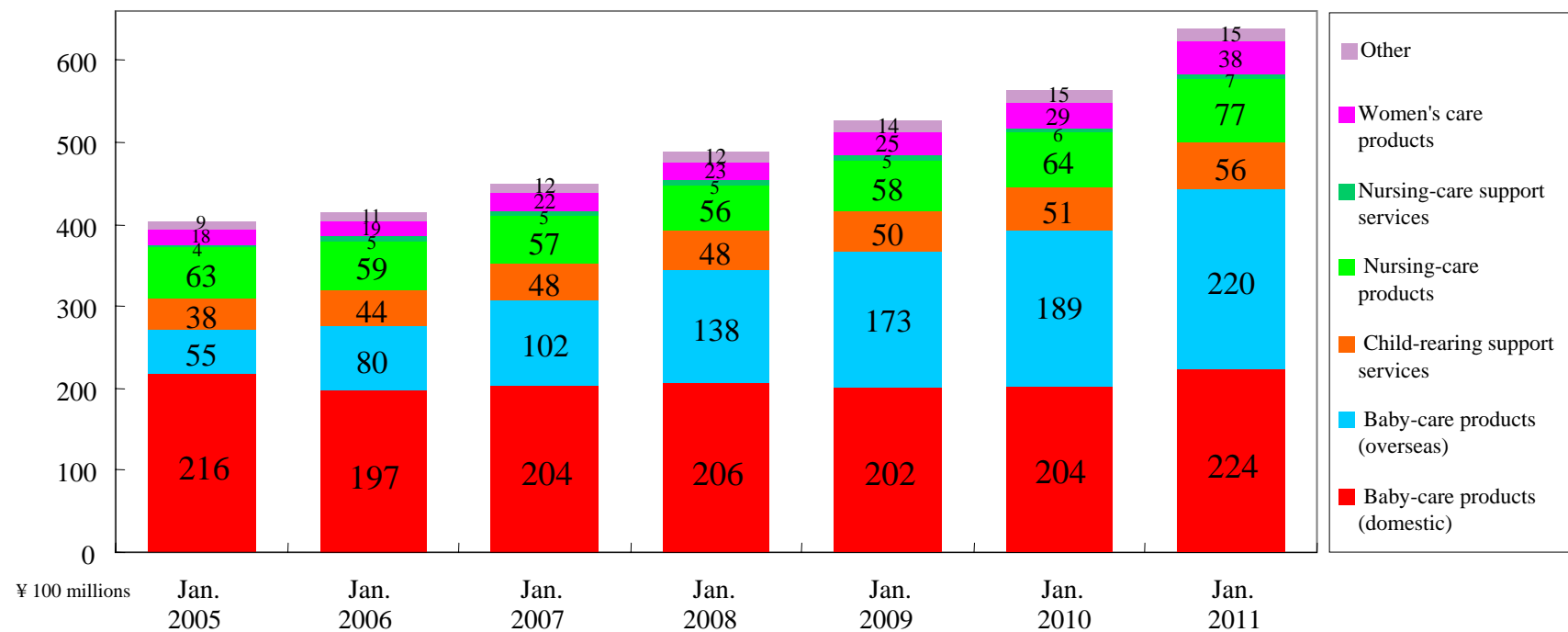
\* The number of shares for EPS is before adjustment for residual securities

\* ROA is the ratio of ordinary income to total assets. ROE is the ratio of net income to shareholders' equity. The denominator for both is the average of the figures at the beginning and end of the fiscal year.

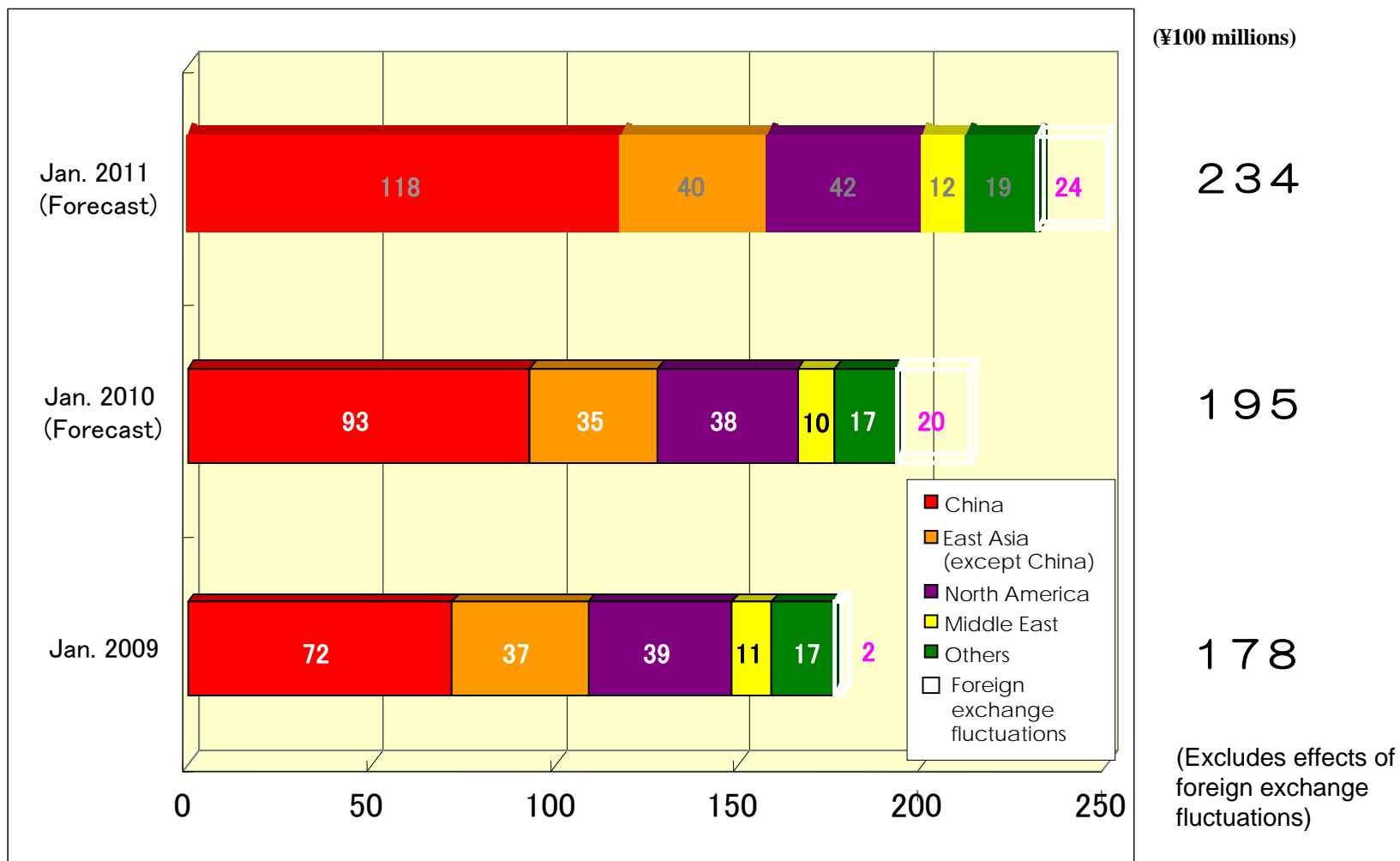


# Sales and Income Forecasts by Segment

¥ 100 millions	Jan. 2008	% of total	Gross margin	Jan. 2009	Jan. 2010	Jan. 2011	% of total	Gross margin	Growth rate (base year: Jan. 2008)
<b>Net sales</b>	<b>492</b>	<b>100.0%</b>	<b>37.9%</b>	<b>530</b>	<b>560</b>	<b>640</b>	<b>100.0%</b>	<b>38.7%</b>	<b>30.0%</b>
Baby-care products (domestic)	206	41.9%	39.6%	202	204	224	35.1%	40.8%	8.9%
Baby-care products (overseas)	138	28.1%	48.3%	173	189	220	34.4%	48.0%	58.9%
Child-rearing support services	48	9.9%	13.6%	50	51	56	8.9%	16.1%	16.8%
Nursing-care products	56	11.5%	30.2%	58	64	77	12.2%	29.4%	37.3%
Nursing-care support services	5	1.1%	19.7%	5	6	7	1.1%	19.5%	33.7%
Women's care products	23	4.9%	37.2%	25	29	38	6.0%	34.5%	59.7%
Other	12	2.6%	31.6%	14	15	15	2.3%	33.1%	16.3%
Overseas business	143	29.1%	48.5%	178	195	234	36.6%	48.0%	63.1%



# Overseas Sales by Region



Assumed rate (medium-term plan): ¥105/US\$; actual FY2008 rate: ¥103/US\$; projected FY2009 rate: ¥90/US\$;  
estimated FY2010 rate: ¥90/US\$

# Capital Policy: Return to Shareholders

- Expecting to increase cash flow from operating activities: ¥12.5 billion (total for three years)
- Putting priority on investment for growth

Breakdown of planned capital expenditure (total for three years):

For growth in overseas business:	¥ 2.4 billion
For growth in domestic business:	¥ 1.3 billion
For domestic infrastructure development:	¥ 1.65 billion
Other investments:	¥ 0.75 billion
<b>Total</b>	<b>¥ 6.1 billion</b>

- Seeking to improve capital costs, while raising funds through borrowings when investing in the expansion of operations, including M&As
- Targeting a consolidated total shareholder return of 50% or more in the final year of the medium-term plan and flexibly expanding returns to shareholders, including stock buybacks
- Improving return on equity (ROE) to 12% or more

# Jan. 2009 Results Jan. 2010 Forecasts

## Jan. 2009 Results and Jan. 2010 Forecast (Consolidated)

(¥ millions)	Jan. 2009			Jan. 2010 (Forecast)		
	Amount	% of Total	YoY Change	Amount	% of Total	YoY Change
<b>Net sales</b>	53, 092	100. 0%	107. 8%	56, 000	100. 0%	105. 5%
<b>Operating income</b>	4, 269	8. 0%	133. 7%	4, 400	7. 9%	103. 1%
<b>Ordinary income</b>	4, 293	8. 1%	135. 1%	4, 350	7. 8%	101. 3%
<b>Net income</b>	2, 854	5. 4%	194. 0%	3, 000	5. 4%	105. 1%
<b>Net assets</b>	24, 324	—	102. 1%	25, 667	—	115. 9%
<b>Total assets</b>	38, 407	—	102. 6%	40, 943	—	109. 2%
<b>EPS(¥)</b>	142. 75	—	193. 2%	149. 88	—	105. 0%
<b>BPS (¥)</b>	1,195. 45	—	101. 8%	1,382. 86	—	115. 7%
<b>ROA</b>	11. 3 %	—	—	10. 8%	—	—
<b>ROE</b>	12. 1 %	—	—	11. 6%	—	—

※ ROA = Ordinary income ÷ Total assets; ROE = Net income ÷ Equity (in both cases, denominators are averaged between beginning and year-end figures)

# Results and Forecast by Segment (Consolidated)

(¥ millions)	Jan. 2009				Jan. 2010 (Forecast)			
	Amount	% of Total	YoY Change	Gross Margin	Amount	% of Total	YoY Change	Gross Margin
<b>Consolidated net sales</b>	<b>53,092</b>	<b>100.0%</b>	<b>107.8%</b>	<b>38.0%</b>	<b>56,000</b>	<b>100.0%</b>	<b>105.5%</b>	<b>37.7%</b>
Baby-care products (Japan)	20,209	38.1%	98.1%	39.6%	20,435	36.5%	101.1%	40.7%
Baby-care products (overseas)	17,374	32.7%	125.5%	48.6%	18,901	33.8%	108.8%	46.5%
Child-rearing support services	5,079	9.6%	104.3%	11.2%	5,178	9.2%	101.9%	11.6%
HHC and nursing care products	5,839	11.0%	102.8%	29.2%	6,432	11.5%	110.2%	28.1%
Nursing care support services	582	1.1%	106.7%	14.4%	630	1.1%	108.1%	13.9%
Women's care products	2,515	4.7%	104.9%	36.6%	2,920	5.2%	116.1%	36.3%
Other	1,490	2.8%	115.4%	28.9%	1,502	2.7%	100.8%	29.5%
<b>Overseas business</b>	<b>17,847</b>	<b>33.6%</b>	<b>124.4%</b>	<b>48.7%</b>	<b>19,551</b>	<b>34.9%</b>	<b>109.5%</b>	<b>46.6%</b>



# Shareholder Return: Capital Expenditure Plan

- We will bolster shareholder return in a flexible manner, including through share buybacks, targeting a total shareholder return ratio of 50% or higher by Jan. 2011. (¥)

Dividend Status	Jan. 2008		Jan. 2009		Jan. 2010 (Forecast)	
	Interim	Year-End	Interim	Year-End	Interim	Year-End
Dividend per share	13	15	23	32	32	32
Payout ratio	37.9%		38.5%		42.7%	

- We will improve ROE to 12% or higher by the year ending Jan. 2011. (¥ millions)

[Reference] Capital expenditure indicators	Jan. 2009		Jan. 2010 (Forecast)
	Interim	Full Year	Full Year
Capital expenditure	1,035	1,431	1,941
Depreciation (tangible fixed assets)	607	1,307	1,397

Capital expenditure refers to purchase of tangible fixed assets, excluding construction in progress.

# First Year of Plan: Results and Issues

## ■ Results

- Achieved revenue and earnings targets set for the first year of the plan
- Particularly strong earnings growth: operating income up 33%; net income up 94%  
=> Major increase in dividends for shareholders
- Continued steady growth in overseas business, centering on China and North America
- Recovery in domestic healthcare business: Recoup (new fostered brand)

## ■ Issues

- Overseas sales targets reached, but domestic business underperformed our plan
- Need to respond more swiftly and flexibly to changing market conditions (especially in Japan)
- Reduce cost-to-sales ratio: Respond to rising raw materials prices and changing exchange rates (appreciating yen)

# Year Ending Jan. 2010: Key Issues

## ■ Pursue globalization of baby-care and women's care products businesses

- China: Continued growth expected, with minimal impact from inflation and economic recession
  - ⇒ Bolster sales bases; upgrade production bases
- North America: Continued growth expected in breastfeeding-related market
  - ⇒ Maintain and increase high share of market for breastfeeding-related products
- New markets: Gather information and build Pigeon brand through new representative office in India

## ■ Reinforce existing domestic businesses; foster new businesses

- Baby-care products: Continue fostering new businesses and direct communication
- IT: Boost sales through focus on mail order site and baby-care portal
- Child-rearing support: Provide high-quality services; promote growth categories
- Healthcare: Continue measures to promote Recoup brand and develop new products

# Overseas Operations

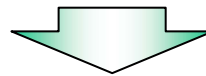
# Overseas Strategy

## [Basic philosophy]

- We are moving in a manner that embodies our basic philosophy of “love.”

## [Strengths]

- We have conducted research into the “growth mechanisms of babies” for more than 50 years, in our quest to deliver the best outcomes for babies.
- We conduct our research from the perspective that “breast-milk is best for babies (which is also consistent with the WHO Code\*). Our research has clarified that the natural sucking peristaltic motion of babies is the same worldwide. Reflecting the results of this research, we have developed new baby bottles that are warmly received by mothers, not only in Japan but around the world.
- From ages zero to 24 months, the growth mechanisms of babies is identical worldwide.



Through in-depth R&D conducted by our Central Research Center, as well as our product promotional efforts, we will work to raise support of Pigeon as a brand that delivers what babies and their mothers around the world desire.

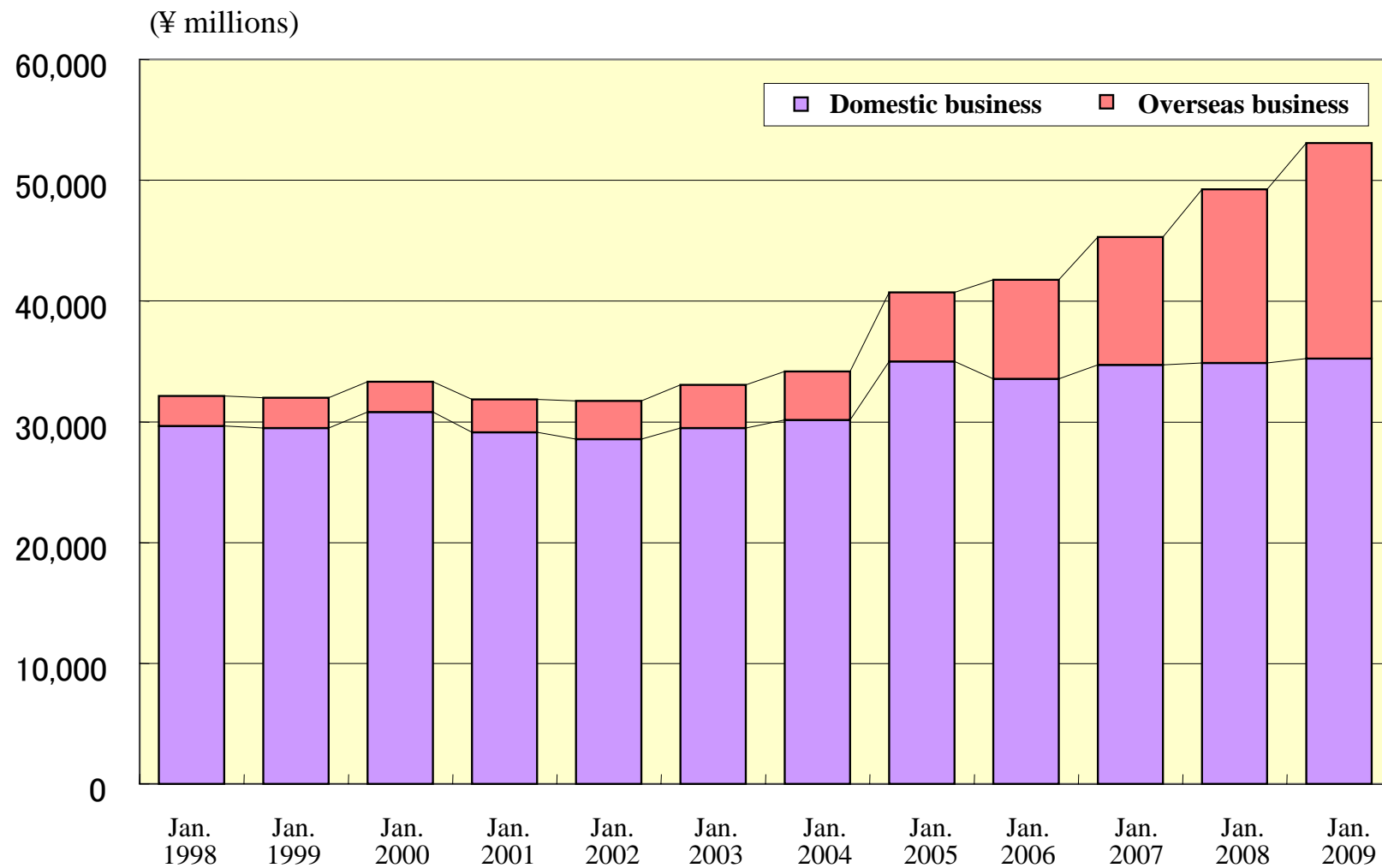
\* WHO Code: International Code of Marketing of Breast-milk Substitutes

# Overseas Business Progress

- The growth mechanisms of babies (a theme of Pigeon's domestic research) is common worldwide
- Therefore, we can horizontally roll out our Japanese business model
- Until the 1990s, overseas sales represented around 10% of net sales
- That ratio grew to 33.6% in Jan. 2009
- Pigeon has a presence in around 60 countries

- 1960s: Started exports
- 1970s: Established overseas subsidiary (in Singapore)
- 1990s: Established production facilities in Thailand (2 locations)
- 2002: Established Pigeon (Shanghai) Co., Ltd.
- 2004: Included Lansinoh Laboratories, Inc. in Pigeon Group
- 2006: Established Pigeon Manufacturing (Shanghai) Co., Ltd.

# Overseas Sales Growth

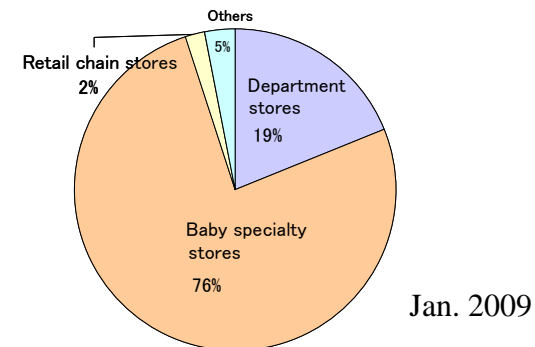
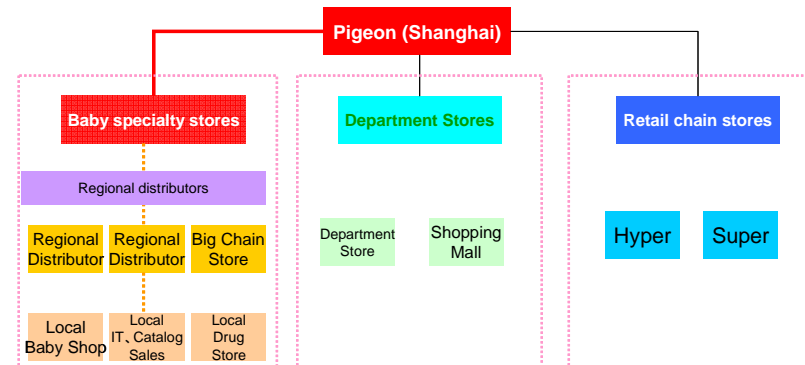
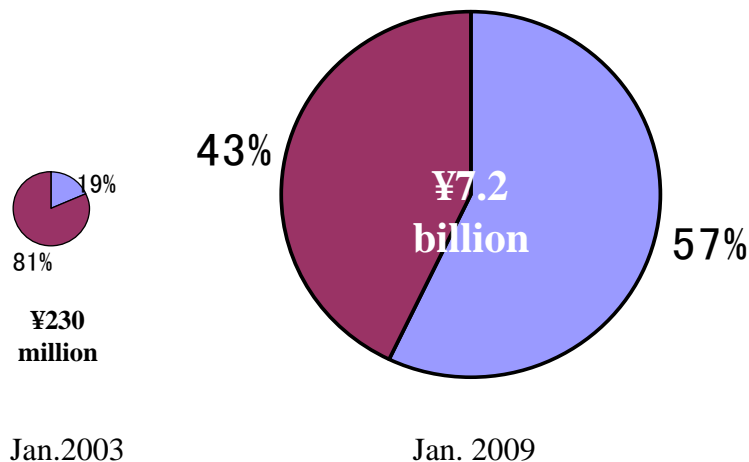


# Progress in China

- Established local subsidiary in 2002
- Initially focused on coastal areas (such as Shanghai, Beijing, and Guangzhou)
- Now actively targeting interior regions as well (regions apart from coastal areas mentioned above account for more than 50% of sales in China)
- Core strategy: “Branding”  
⇒ Recommended pricing, face-to-face sales, education of salespeople, sales promotions targeting hospitals, establishment of dedicated Pigeon sections in retail stores

## Sales in China: Coastal vs. Interior Regions

( Burgundy: Coastal Blue: Interior)





# Progress in China

- Roll out almost same number of products as in Japan (550~600SKU)
- Differences from Japan strategy: Promote products (such as skincare for toddlers) for older children than in Japan; increase categories (including strollers)



Baby strollers

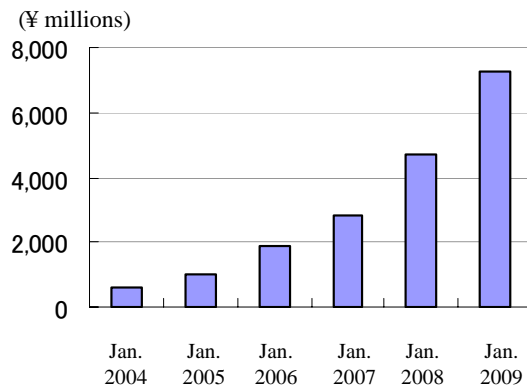


Skincare products for toddlers

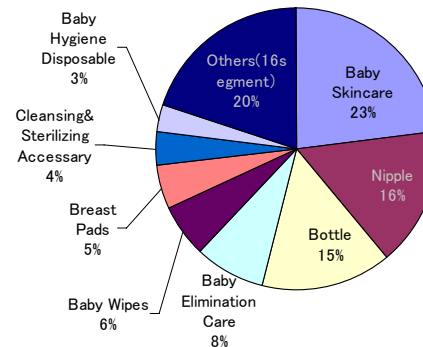


"Pigeon corner" in Wuhan, Hubei

## [Sales in China]



## [Breakdown by Category]

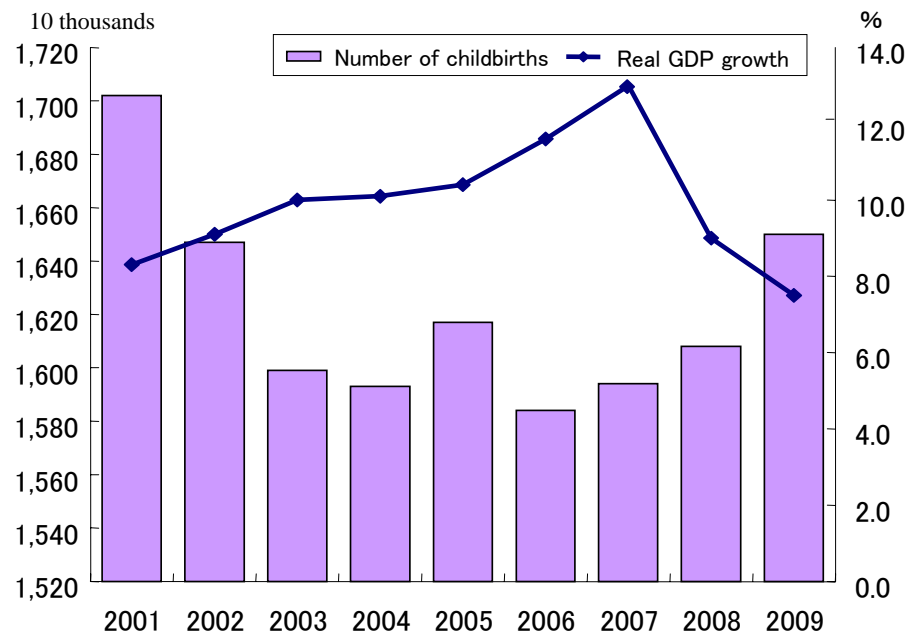


"Pigeon corner" in Beijing

# Thoughts on Chinese Market

- GDP continues to rise, although growth rate is slowing at present  
⇒ In the baby-care market, we expect growth in demand for consumables (disposable-type products)
- Childbirths also trending at a high level

## [China: Childbirths and Real GDP Growth]



Sources:

Childbirths: National Bureau of Statistics of China

Real GDP growth: Figures compiled by Pigeon with data from the International Monetary Fund (IMF) (~2006) and the Organization for Economic Cooperation and Development (OECD) (2007~)

### [Pigeon customer profile]

Initially: Wealthiest 10%

Now: Wealthiest 20%

(due to rising incomes)

### [Market expansion]

Pigeon sales in China expected to reach ¥20 billion by FY2015

# Investment in China

## [Joint project with Chinese government]

- Engaged in joint project with Chinese government (aimed at promoting breastfeeding and raising ratio of breastfed babies)
- Pigeon Breastfeeding Advisory Offices to be established in 34 government-certified hospitals in current fiscal year



## [Frameworks to address market growth (1)]

Qingpu Industrial Zone (Shanghai): Now in Stage 2 of construction

- Started in January 2009; scheduled to commence operations in October 2009
- Investment amount: Approx. ¥700 million
- Production of plastic baby bottles and molded products

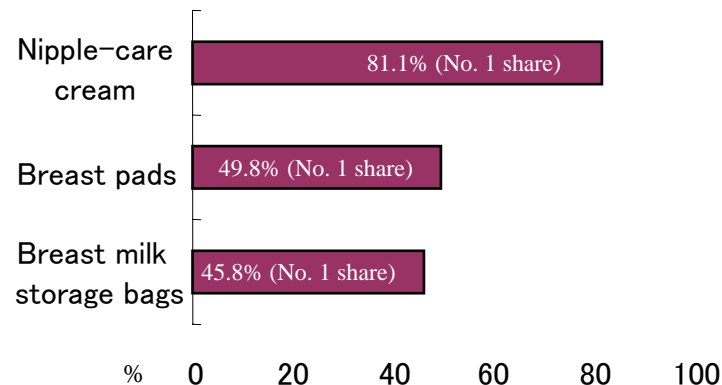
## [Frameworks to address market growth (2)]

- Establish new company (new plant) in Wujin Hi-Tech Industrial Zone (Changzhou City, Jiangsu Province)
- Construction to start in February 2010 (scheduled to commence operations in January 2011)
- Investment amount: Approx. ¥1.85 billion (Stage 1)
- Production of breast pads and baby wipes

# North America & Europe

- Full-scale market entry ⇒ When Lansinoh Laboratories joined Pigeon Group (2004)
- Products advanced: Breastfeeding-related products only; high market shares for mainstay products
- Expanded into Europe with growing network of Lansinoh branches (Turkey branch opened in April 2009, complementing existing branches in Germany and United Kingdom)
- Future-oriented initiative: Expand product range
  - ⇒ Acquired Soothies brand in January 2009
  - ⇒ Promoting baby-care products

[Lansinoh Products: U.S. Market Share]  
(yearly average)



Lansinoh products



Soothies products

# New Market (India)

## [Potential of Indian market]

- Growing number of young people in population of more than 1.1 billion
- Upward trend in wealthy population expected to continue

## [Activities]

- Dispatching personnel from Singapore
- Opened representative office in Mumbai in December 2008
  - ⇒ Full-scale information-gathering, expansion of sales channels, and brand-building
- Plan to establish a sales subsidiary (December 2009)
  - ⇒ Build foundation for further business expansion



Department store in  
Mumbai



Baby shop in  
Bangalore

# Corporate Overview

## PIGEON CORPORATION

### Head office

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