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Notice Regarding Formulation of New Medium-Term Business Plan

The Pigeon Group has formulated its Fifth Medium-Term Business Plan (January 2015 to January 2017). Details are given below.

1. Overview of Fourth Medium-Term Business Plan

(1) Overview

Under the fourth medium-term business plan, “Independence as a Global Company,” which concluded with the fiscal year ending January 31, 2014, the Pigeon Group built out and reinforced its operating framework while further accelerating the expansion of its overseas business. In so doing, the Group established a solid footing for growth. The plan also enabled the Group to reorient existing businesses toward profitability while focusing on building a base for new growth, despite a domestic economy characterized by a low birthrate and an aging population.

As a result, the Group was able to achieve growth in both net sales and income. In domestic operations, Japan’s low birth rate created a difficult environment, as competition intensified in the maturing childcare-product market. However, thanks to rapid growth in Group operations in China, steady recovery in North American operations and the impact of a weakening yen, the Group achieved the quantitative targets set in the fourth medium-term business plan.

(2) Financial Targets and Results (Consolidated)

Progress Status of Fourth Medium-Term Business Plan

(¥ billions)

	Fourth Medium-Term Business Plan Target		FY January 2014 Result		Progress Status
	Revised Amount	% of Net Sales	Result	% of Net Sales	
Net sales	73.3	—	77.4	—	105.7%
Gross profit	30.4	41.5%	34.4	44.5%	113.4%
Operating income	7.3	10.0%	10.3	13.4%	142.0%
Ordinary income	7.3	10.0%	11.0	14.2%	150.7%
Net income	4.4	6.0%	6.9	9.0%	158.8%
ROE (%)	14.0% and more	—	19.7%	—	+5.7pt

In sales results by segment, the child-rearing support service and overseas business exceeded the plan's targets, while the domestic baby and childcare products and healthcare and nursing care fell short of plan. In overseas business, a key growth driver of the Group's operations, sales reached 122.0% of plan, at ¥38.5 billion versus the planned ¥31.6 billion. Compared with sales in the fiscal year immediately before the fourth medium-term business plan (¥19.8 billion), sales grew 94.4% over the course of the plan, supporting exceptionally high growth.

In the two domestic businesses that failed to attain the plan's quantitative targets, several factors played a role in this result. The key factors were the continuing low birthrate in Japan, the maturing of the childcare-product market and intensifying competition.

Several factors contributed to the success of the Group's overseas business. In rapidly growing China, the Group invested intensively while strengthening its branding activities and building out its logistical framework. In North America and Europe, the Group strove to reinforce its supply chain and revamp its organization. Turning to emerging markets, the Group made steady progress in its expansion efforts, establishing subsidiaries in South Korea and Malaysia and deciding on construction of local production facilities in India. As a result of these initiatives, as well "Abenomics" effects such as government economic measures and the weakening yen, this segment succeeded in outperforming the plan's targets.

The fifth medium-term business plan holds several aims. The Group will

further build out and strengthen its business management framework while implementing a number of measures based on the newly crafted operating strategy, as well as the functional strategy on which it is based. Finally, the Group will enhance the quality of management. In overseas business, which is positioned as a continuing growth field, the Group will expand and deepen operations in existing markets such as China and North America while proactively entering new markets. In this way, the Group will aim for further expansion in business results.

2. Overview of Fifth Medium-Term Business Plan

(1) Formulation of the “Pigeon Way”

By delivering on its corporate commitment, “providing the gift of love to all” in the form of products and services, the Group deploys operations to fulfill its mission of bringing joy, happiness and delight to babies and families around the world. Guided by this philosophy, the Group has set in its medium-term corporate vision the goal of becoming global No. 1 in its field, as the producer of childcare products that is most trusted by the world’s parents and families.

To guide its operations, the Group has formulated the Pigeon Way. The Pigeon Way consists of the Mission and Vision described above, the three Values that each employee must treasure, and the five Action Principles that are the base and guide to all actions.

As they work to expand the Group’s operations, all Group employees in Japan and worldwide understand and share the Pigeon Way, constantly striving as a team to achieve the Vision.

(2) Medium-Term Business Policies and Strategies

In the fifth medium-term business plan, the Group has adopted the slogan, “Pursuing world class business excellence, think globally, plan flexibly and implement locally.” In this plan, the Group has stipulated Vision 2016 as outlined below, aiming to expand Group operations and improve management quality.

- i) Strengthen brand effectiveness to become global No. 1 in childcare products
- ii) Strengthen the management framework for continuous business development
- iii) Improve management quality by focusing on cash flow

iv) Construct a global system for personnel training and management and promote employee dynamism

v) Further enhance enterprise value

Below is an overview of our business and functional strategies.

Overseas Business

- Key markets: Entering and deepening the Group's presence in markets specified as key countries based on market potential, including medium- and long-term viewpoints.
- Key categories: Focus on categories where the strengths of the Group can be applied (baby bottles, baby bottle nipples, breast pumps, pacifiers, skincare products and breast pad)
- Activities in the maternity- and general-hospital industries: Synergy between horizontal deployment of these activities and brand strengthening

1) China

- Expansion of operations
 - Growth in existing products and in new products such as paper diapers
- Strengthening of the operating base
 - Capital investment to respond to operational expansion
 - Automation of production lines and similar measures to reduce costs and promote stable supply
 - Further strengthening of organizational frameworks to respond to operational expansion

2) Europe and North America

- Strengthening our brand as a child-rearing support service company
 - Baby bottles: Introduction of NaturalWave
 - Strengthening of total support across the entire breastfeeding scene, from breast pumping to breast-milk preservation to feeding
 - Strengthening of activities in the maternity- and general-hospital industries
- Expansion of operations in Central and South America and development of new markets

3) Asia and Middle East

- Growth centered on five key categories (baby bottles, baby bottle nipples, breast pumps, skincare products and breast pad)
- Accelerated strengthening and penetration of the Pigeon brand
- India: Operation of local production facilities and strengthening of marketing functions

Domestic Business

- The Group aims for improved growth and profitability in existing business fields. In the baby and childcare products, the Group is seeking improved profitability in existing businesses and steady growth in large-scale business. For the healthcare and nursing care, the Group will strengthen its sales system, launching highly competitive products, and will market highly competitive products.

1) Domestic baby and childcare products

- Improved profitability in existing business
- Establishment of large-scale product operations and examination of new categories for entry

2) Healthcare and nursing care

- Strengthening of sales through channels at nursing-care facilities
- Achieving growth in facilities and existing routes by launching highly competitive products
- Further improvement in the quality of nursing-care services

3) Child-rearing support services

- Improve child-rearing support service quality and achieve steady business growth
- Training of high-quality childcare personnel

Functional strategy

1) Research and development

- Improving product-development capability by deepening research (“baby

- theory”) and instilling thorough customer focus
 - Construction and strengthening of a global development framework by reviewing research, planning and development functions
- 2) Quality control
 - Strengthening of quality-control functions at each production site
 - Establishment of the Pigeon Productive Management (PPM) system
 - 3) Production, purchasing and logistics
 - Cost reduction through achievement of an efficient system of production, purchasing and logistics
 - Establishment of a global supply-chain management system
 - 4) Global personnel system
 - Training of personnel capable of acting on the global stage and formation of a global personnel system, to respond to further expansion in overseas business
 - 5) Global head office
 - Strengthening of corporate-center functions
 - Strengthening of functions for the planning and advancement of Group strategy
 - Strengthening of compliance and CSR capabilities

(3) Medium-Term Financial Targets

In its fifth medium-term business plan, the Group aims to achieve the following targets by the final year of the plan, the fiscal year ending January 31, 2017: Net sales of ¥100 billion, operating income of ¥15 billion and net income of ¥9 billion. By firmly achieving this plan, and by strategically investing in its businesses, the Group will reinforce its base for further growth. Moreover, to achieve further improvements in profitability and capital efficiency, the Group will improve operating income margin to 15.0% from 13.4% of FY January 2014 and focus on management indices such as return on equity (ROE) and return on invested capital (ROIC)*.

* ROIC = Net operating profit after tax (NOPAT)/invested capital, using a tax rate of 40.7%

Main Targets of Fifth Medium-Term Business Plan

(¥ billions)

	FY Jan. 2014 Result		FY Jan. 2017 Target		Growth Rate
	Result	% of Net Sales	Target	% of Net Sales	
Net sales	77.4	—	100.0	—	+29.1%
Gross profit	34.4	44.5%	44.2	44.2%	+28.2%
Operating income	10.3	13.4%	15.0	15.0%	+44.7%
Ordinary income	11.0	14.2%	15.0	15.0%	+36.3%
Net income	6.9	9.0%	9.0	9.0%	+28.8%
ROE (%)	19.7%	—	21.0% and more	—	+1.3pt and more
ROIC (%)	14.2%	—	15.0% and more	—	+0.8pt and more

Targets by Business Segment

(¥ billions)

	FY Jan. 2014 Result		FY Jan. 2017 Target		Growth Rate
	Result	Gross Margin	Target	Gross Margin	
Domestic baby and childcare products	24.4	45.8%	27.0	45.3%	+10.4%
Child-rearing support services	6.5	11.5%	6.7	12.7%	+1.5%
Healthcare and nursing care	6.7	29.8%	8.0	33.6%	+19.0%
Overseas business	38.5	52.6%	57.3	49.1%	+48.7%
Others	1.1	20.5%	1.0	12.4%	-13.1%
Consolidated net sales	77.4	44.5%	100.0	44.2%	+29.1%

3. Shareholder Return

To maximize shareholder value, the Group aims to promote sustainable growth and improvement of business results. In this way the Group seeks to maximize earnings per share while returning earnings to shareholders through a continuous and stable dividend. Guided by this basic principle, the shareholder-return policy in the fifth medium-term business plan is to target a total consolidated return of around 45–50% of earnings, including year-to-year increases in dividends and acquisition of treasury shares. The Group is committed to responding continuously to the expectations of all shareholders and investors.

4. Reinforcement of Internal Control Systems

Informed by the Pigeon Way, the directors and employees of the Pigeon Group aim to uphold the Group's corporate social responsibilities, maintaining a consistently strong ethical outlook and compliance-focused management in all aspects of its business activities. In its rapidly expanding overseas operations, the Group is working to enhance still further its system of global risk management.

Going forward, the Group is committed to further enhancement of soundness and transparency in management. To this end the Group is thoroughly implementing compliance systems and other systems of internal controls and is fortifying its corporate governance.