



June 4, 2020

Company name: Pigeon Corporation

Representative: Norimasa Kitazawa

(President and CEO)

(7956, TSE 1st Section)

Contact: Nobuo Takubo

(Business Strategy Division Manager)

Phone: +81-3-3661-4204

## Decision on Timing of Share Purchase Due to Continuance of Performance-linked Stock

### Remuneration Program for Directors

Following the continuation of the executive remuneration BIP (Board Incentive Plan) trust (the “Trust”), a performance-linked stock remuneration program for the Company’s directors (excluding outside directors; the same applies hereafter) that was introduced in FY2019 (the “Program”), Pigeon Corporation (the “Company”) announces that it passed a resolution as follows at a meeting of its Board of Directors held today to make additional contribution of funds for purchasing Company shares, which is required as the Program is continued.

For the outline of the Program, please refer to “Abolition of Retirement Benefit Program for Directors and Introduction of Performance-linked Stock Remuneration Program” dated March 11, 2019.

The Company had introduced the Program targeting its directors, with the aim of clarifying the link between directors’ remuneration and the Company’s business performance and shareholder value, as well as improving the directors’ awareness toward contributing to increasing medium/long-term business performance and corporate value, initially only for FY2019. The Company has decided to continue the Program for three more fiscal years until FY2022 and to extend the trust period of the Trust for three years.

The amount of additional trust money required to purchase Company shares due to the continuation of the Program and the period and method of Company share purchases are as shown below. The Company shares and money remaining in the Trust at extension of the Trust will be succeeded to by the extended Trust.

(1)	Amount of additional trust money	389 million yen (provisional) (includes trust fee and trust expenses)
(2)	Share purchase period	Between June 8, 2020 (provisional) and June 23, 2020 (provisional)
(3)	Share purchase method	Purchase from stock market

## [Outline of trust contract]

(1)	Type of trust	Monetary trust other than special individual investment monetary trust (third-party-benefit trust)
(2)	Purpose of trust	Providing incentive to directors
(3)	Entrustor	The Company
(4)	Trustee	Mitsubishi UFJ Trust and Banking Corporation (Co-trustee: The Master Trust of Japan, Ltd.)
(5)	Beneficiary	Directors who meet beneficiary requirements
(6)	Trust administrator	A third-party specialized practitioner with no vested interest in the Company
(7)	Date of agreement of trust extension	May 15, 2020
(8)	Trust period after extension	From June 1, 2020 to May 31, 2023
(9)	Treatment of voting rights	Not to be exercised
(10)	Type of purchased shares	Common stock of the Company
(11)	Amount of additional trust money	389 million yen (provisional) (includes trust fee and trust expenses)
(12)	Share purchase period	Between June 8, 2020 (provisional) and June 23, 2020 (provisional)
(13)	Share purchase method	Purchase from stock market
(14)	Holder of vested rights	The Company
(15)	Residual assets	The residual assets that the Company, the holder of vested rights, can receive shall be within the extent of the trust expenses reserve, which is trust money less share purchase funds.

## Executive remuneration policy

### 1. Basic policy regarding corporate governance

The Company has developed the “Pigeon Way,” as described in the next page, comprising its Purpose, Values, Action Principles and Vision, under its Corporate Philosophy of “Love” and its Credo of “Only love can beget love,” as the basis of its spirit and actions to be shared by all Pigeon Group employees, both in Japan and abroad.

The “Pigeon Way” is more than a mere slogan. The Company believes that having all employees become strongly aware of the “Pigeon Way” and putting it into action will inevitably improve corporate value, and that its corporate value encompasses both social and economic value. We are aiming to achieve the goal of improving social value mainly by becoming an indispensable part of society, while delivering joy and happiness to our target customers, by providing solutions and new value. The Company established the following six (6) priority materialities (Key Issues) to be addressed in terms of Sustainable Development Goals (SDGs) and Environmental, Social, and Governance (ESG): 1) enhancement of business competitiveness and R&D capabilities; 2) sustainable reduction of environmental impact; 3) enhancement of stakeholder support capability; 4) improvement of the quality of human resources; 5) creation of comfortable working environment; and 6) development of a solid management base, all of which will be incorporated into our business strategies. Meanwhile, we are aiming to achieve the goal of improving economic value mainly by increasing free cash flow consistently, efficiently, and strategically, as we move into the future.

Based on this approach, the Company defines corporate governance as “the system that pays due respect to the views of our employees, customers, business partners, shareholders and local communities, and that ensures transparent and fair as well as prompt and bold decision-making” and the purpose of corporate governance as the means to achieving “the Company’s sustained growth and the improvement of corporate value in the medium- to long-term.”

The Company will continue to further strengthen this system in accordance with the above definition and make efforts to continuously enhance its corporate governance in pursuit of further improving its corporate value.

## Pigeon Way



### Corporate Philosophy

#### Love

#### Credo

Only love can beget love

#### Vision

To be the baby product manufacturer most trusted by the world's babies and families, "Global Number One"

#### Purpose

We want to make the world more baby-friendly by furthering our commitment to understanding and addressing babies' unique needs

#### Values

- Integrity
- Communication, Consent, Trust
- Passion

#### Action Principles

- Agility
- Keep sight of consumers
- Global collaboration among competent individuals
- Leadership and logical working style
- Willingness to change

## 2. Basic policy on executive remuneration

The Company's basic policy on remuneration for Directors (hereinafter referred to as "executive remuneration") shall be as follows, in accordance with the Basic policy regarding corporate governance:

- It should contribute to "management that improves the corporate value" of the Group over the medium- to long-term;
- It should contribute to the hiring of talented managers toward the achievement of "Global Number One," based on the "Pigeon Way"; and
- The remuneration system should be highly independent, objective, and transparent, and accountable to stakeholders.

## 3. Remuneration levels

The Company determines levels of executive remuneration in accordance with the aforementioned Basic policy on executive remuneration, after surveying and analyzing its business environment and the compensation levels in its peer group of companies in the same industry (manufacturing) and of the same size, through external databases, etc.



#### 4. Remuneration mix

The remuneration for the Company's Directors (excluding Independent Outside Directors) consists of "basic remuneration" commensurate with position, "bonuses" provided as short-term incentives, and "stock remuneration" provided as a medium- to long-term incentive. The remuneration for Independent Outside Directors and Audit & Supervisory Board Members consists of "basic remuneration" only.

##### (i) Overview of remuneration types

###### <Basic remuneration>

Positions are determined in accordance with roles and responsibilities of each Director in the Company's five business departments. Monetary amounts are decided by position and paid as monthly remuneration.

###### <Bonuses>

Bonuses are paid for the purpose of granting incentives according to the Group's consolidated performance and the performance of the Director's respective departments each fiscal year. Consolidated performance will vary within a range from 0 to 150%, in accordance with the achievement level of targeted "net sales," which indicates the scale of the Company's main businesses; "operating income," which indicates the profitability of the Company's main businesses; and, "PVA" (Pigeon Value Added, the Company's original performance indicator), which indicates the amount of corporate value created in excess of capital costs. These targets utilize the performance forecasts published in the summary of financial results at the beginning of each period for net sales and operating income, and in the initial fiscal-year plan for PVA.

The Chairman of the Board, President and CEO, and Director in charge of GHQ are evaluated only based on consolidated performance. However, for other Directors, bonuses will vary within a range from 0 to 150%, in accordance with the achievement level of targets, with consolidated performance accounting for 70%, and the performance of the Directors' respective departments (net sales, operating income, and PVA) accounting for 30%.

The valuation ratio for each indicator is as follows:

50% for net sales;

30% for operating income; and

20% for PVA.

#### <Stock remuneration>

Stock remuneration is paid at the time of retirement for the purpose of granting an incentive to improve the Group's medium- to long-term company performance and corporate value, and to place Directors in the "same boat" as the shareholders (thus, giving Directors and shareholders a shared interest).

Stock remuneration consists of 60% performance shares and 40% restricted stock.

- Performance shares

In principle, performance shares will vary within a range from 0 to 150%, primarily in accordance with the achievement level of target performance indicators set out in the Medium-Term Business Plan (consolidated net sales CAGR, EPS growth rate, ROE and TSR (Total Shareholder Return)) as well as non-financial indicators (e.g., sustainable reduction of environmental impact, development of products and services that help solve social issues, and engaging in dialogue with shareholders and investors in a responsible manner). Performance indicators are used because they promote the continuous growth of the top line (net sales), further improvement of business profitability and efficiency, as well as an increase in corporate value over the medium- to long-term. With regard to non-financial indicators, we will work to solve social issues surrounding babies, their mothers and their families, as well as reduce factors that lead to environmental load in all countries and regions in which the Group operates, with the aim of making the world more baby-friendly. Furthermore, we will establish a solid management base to continuously support babies by actively engaging with shareholders and investors to gain their understanding and consent to these measures. If the targets set out in the Medium-Term Business Plan are changed significantly, the Board of Directors determines the appropriateness of the target values for stock remuneration, after deliberation by the Remuneration Committee.

The valuation ratio for each indicator is as follows:

#### Performance indicators

Consolidated net sales CAGR: 30%

EPS growth rate: 30%

ROE: 10%

TSR: 10%

#### Non-financial indicators

Sustainable reduction of environmental impact, development of products and services that help solve social issues, and engaging in dialogue with shareholders and investors in a responsible manner: 20%

- Restricted stock

From the same-boat perspective, a fixed number of shares will be allocated as stock remuneration.

The Company recommends that in principle, Directors (excluding Independent Outside Directors) hold at least one year's worth of basic remuneration in Company shares.

Stock remuneration is allocated through a trust-based stock remuneration system. This system grants units (points) to the trustees each year, and issues shares in the Company corresponding to the number of units (points) from the trust at the time of retirement. From the same-boat perspective, the determined number of units (points) is disclosed in the Reference Documents for the General Meeting of Shareholders. Management of Company shares is entrusted to Mitsubishi UFJ Trust and Banking Corporation.

(ii) Standard model for the composition of Director (excluding Independent Outside Directors) remuneration (if the achievement level of each indicator is 100%)

- Basic remuneration: 60%
- Bonuses: 20%
- Stock remuneration: 20%

## 5. Determination process

In order to increase the independence, objectivity, and transparency of the details of the executive remuneration system, a Remuneration Committee has been established as an advisory body to the Board of Directors, chaired by and with a majority consisting of Independent Outside Directors. In principle, the Remuneration Committee shall meet at least four times per year, deliberate primarily on the following main agenda items, and provide advice and proposals to the Board of Directors. The Board of Directors, in turn follows such advice and proposals to the greatest extent possible in its decision-making.

In order to introduce an objective perspective from outside of the Company, as well as expertise on the executive remuneration system, the Company employs an outside consultant, with whose support it considers the details of the remuneration system, while taking into account matters such as external data, the economic environment, industry trends, and management conditions.

<Main agenda items of the Remuneration Committee>

- Whether it is necessary to revise the executive remuneration policy
- Remuneration levels of individual executives (base amount by position)
- Performance targets and evaluation table for bonuses



- Performance evaluations and individual payment amounts, etc. for bonuses in the previous fiscal year
- Performance evaluations and individual payment amounts, etc. for stock remuneration in the previous fiscal year
- Level, composition, indicators, etc. of executive remuneration using external data, etc.

#### 6. Forfeiture and return of remuneration

If the Board of Directors resolves to correct its financial statements after the disclosure, due to major accounting errors or fraud, or if the Board of Directors, etc. determines that a Director (excluding Independent Outside Directors) has violated his or her duty of care as a prudent manager or duty of loyalty, or committed other serious violations of his or her legal or contractual obligations during his or her term of office, the Remuneration Committee, in consultation with the Board of Directors, deliberates on whether to seek forfeiture of the right to receive some or all bonuses and stock remuneration, or to seek the return of some or all bonuses and stock remuneration which have already been paid, and also provides advice and proposals to the Board of Directors regarding the results of its deliberations.

The Board of Directors shall resolve on whether to demand from the Director in question the forfeiture of the right to receive some or all bonuses and stock remuneration, or the return of some or all bonuses and stock remuneration which have already been paid, while following the advice and proposals of the Remuneration Committee to the greatest extent possible.

#### 7. Policy on information disclosure, etc.

The Company swiftly and actively discloses the details of the executive remuneration system, based on its Disclosure Policy, through the annual securities reports, Reference Documents for the General Meeting of Shareholders, business reports, Corporate Governance Reports, Integrated Reports, websites, and other materials created and disclosed in accordance with statutory and other obligations.

The Company, led by the CEO and the Directors (including Independent Outside Directors), also actively engages with shareholders and investors. The Company positions engagement with shareholders and investors who understand the Pigeon Way as a core value. It shares the views of shareholders and investors gained through engagement with the Board of Directors and other meetings, and uses these views to increase its corporate value (social and economic value).