

## **Results Briefing for the Year Ended January 31, 2019** **Summary of Questions & Answers**

### **<Cautionary Statement>**

**This Summary of Questions and Answers is intended to be a reference for those who did not attend the results briefing. Please be advised that this material does not cover the full text of the question and answer session at the briefing but provides a summary at our discretion. In addition, forward-looking statements in this material, including business outlook and forecast, are based on our assumptions and judgments in view of information currently available. These statements are subject to known or unknown risks, uncertainties, and other inherent factors.**

\* The questions and answers below are categorized by business segment.

### **China Business**

**Q: What caused the segment sales to slow down in the 4th quarter, especially in December? Is the slowdown just temporary? How do you see the actual demand in China?**

A: The slower sales in the 4th quarter is primarily because we temporarily curbed shipment to one of our e-commerce channels to address an urgent need to renegotiate business terms with it. Since the shipment have already resumed, we see the matter as a temporary problem. Although this trouble slowed down e-commerce sales in the 4th quarter, the annual growth rate exceeded 15%, indicating that Chinese consumers' demand for our products remained strong. Sales during Double 11 ("W11")—China's biggest online shopping event held on November 11 known as "Single's Day"—increased a more-than-expected 60% year-on-year. With more than 60 new products to be introduced this year, we are reasonably confident that we can achieve at least a 10% year-on-year increase in sales from the China Business segment this year.

**Q: Why did you need to renegotiate business terms with one of your Chinese e-commerce channels?**

A: The e-commerce distributor decided to strengthen their policy to reduce purchasing costs, and as part of that, they also proposed revision of business terms with us. As Pigeon has been regarded by them as a brand that can attract customers at their e-commerce platform, the business has already resumed in the way the two companies work together to further promote Pigeon products.

**Q: Can you possibly tell us about any of the new products to be launched this year?**

A: We plan to introduce many new products to China market this year, but we cannot disclose any specific information before the announcement.

**Q: What percent of your total sales in China come from e-commerce channels?**

A: Sales from e-commerce channels accounted for a record-high 46% of our total sales in China.

**Q: Is there any change in the competitive environment in China?**

A: Nursing bottles & nipples, which account for over 40% of our sales in China, are growing in market share. Skincare product's market share also increased 40% year-on-year (on a sell-in basis), continuing a steady growth. However, consumables such as baby wipes and breast pads are struggling among local-brand competitors with low-price strategies. We are to implement measures to address this situation.

**Q: Pigeon's year-end inventory level seem to be high. Will inventory decrease substantially in the 1st quarter of the fiscal year ending December 2019? Also, given that product cycles are shorter in China than in Japan, is it fair to say that holding more inventory in China involve greater risks?**

A: We believe that our current inventory will decrease at the end of the 1st quarter of the next fiscal year. As the direct sales ratio is rising year by year, the inventory level may increase for a while, but that should be only temporary. The inventory risk at sales agencies, which became a problem several years ago, will probably decrease as the direct sales ratio increases. In China, sales significantly fluctuate in line with e-commerce events, and it is necessary to set up a production system that can respond to such fluctuations. We are going to be able to monitor the production and inventory situation in a timelier manner through a system linkage between our sales and manufacturing subsidiaries in China.

**Q: You expect net sales for the fiscal year ending December 2019 to achieve a double-digit growth in local currency terms. Please explain this forecast in detail and its achievability. In China, while nursing bottles and skincare products are growing, consumables are facing intense competition. Against this background, is it possible to maintain growth going forward? I would also like to know your outlook for the next fiscal year and beyond.**

A: We think that the double-digit growth is achievable. For nursing bottles & nipples, we ceaselessly challenge ourselves to attain further growth in these hot sellers. At the same time, we will also pursue growth of skincare products, which grew significantly in the previous fiscal year. Following our recent hit skincare products, we plan to further strengthen our research and development capabilities. By clearly communicating benefit of our products supported by evidence in the form of research results to the customers on e-commerce platforms, we are going to differentiate our products from the low-priced local brands, regardless of fierce competition ahead. We believe that we can continue to grow on two pillars: nursing bottles & nipples and skincare products.

**Q: While e-commerce business is growing, what kind of digital marketing efforts are you making?**

A: As an example of our digital marketing efforts, we are enhancing the linkage between “Pigeon Mom Club” members and e-commerce. We also plan to further strengthen our social customer relationship management (SCRM) and other activities that will lead to an increase in loyalty of those who have only been fans of Pigeon. As the measures aimed at W11 and other promotional occasions delivered great results last year, we will also continue to take these measures.

**Q: You seem to be struggling with developing China's offline sales channels. Is there any change in the situation?**

A: While small stores for baby products closing, new chain stores are opening. All in all, the number of stores carrying our products has not decreased significantly. Customers have been shifting to e-commerce channels and the credibility of brand-owned stores has been further enhancing, and this is why we are struggling with the offline business.

**Q: Do you have any measures to stop declining offline sales? How about the measures for products other than nursing bottles & nipples and skincare products?**

A: As part of our measures against declining offline sales, we will work with approximately 200 salespeople of our agents to strengthen in-store follow-up mainly at stores in key areas. New products, on top of nursing bottles & nipples and skincare products, will be distributed while providing face-to-face consultation with each store.

**Q: The number of births in China last year was down 11% year-on-year. Did it affect your business? In addition, what outlook do you have with regard to the number of births this year?**

A: Given the media coverage that the number of births decreased by about 2 million last year, we cannot deny the impact it possibly had on our business. So we do not assume that the number of births will increase much in the future. However, our target customer group is expanding as the Chinese economy grows. We want to focus on acquiring a higher market share in the expanding target group.

### **Lansinoh Business**

**Q: Sales through the durable medical equipment (DME) route have been growing at a slower pace. Going forward, how will sales from the DME route be growing?**

A: Sales of electric breast pumps through the DME route were strong in the first half but turned slow in the second half. One reason is a price offensive by the top-share manufacturer. Looking at the 4th quarter alone, however, its year-on-year growth may be seen particularly sluggish compared with the same quarter two years earlier when a remarkable year-on-year growth rate was posted. Also, in the same quarter a year earlier, we curbed shipments of old products in preparation to put new products into the market, which also had a significant effect. New products shipped in January this year are showing strong sales, and we expect this year's sales to grow at a favorable pace.

**Q: Your sales forecast for the Lansinoh Business in the fiscal year ending December 2019 is up about 10% over the previous year, but how much will sales grow in North America?**

A: As for the Lansinoh Business, we have forecast its global sales to increase 9.6% year-on-year and expect 7.2% year-on-year growth in North America. As we have a conservative view at the growth of the DME route sales, we aim to deliver a result higher than the forecast we announced.

**Q: In Japan, you do not have an extensive lineup of electric breast pumps. Whereas in the United States, is it true that more extensive lineup of the product will directly lead to capturing new demand?**

A: The situation varies from market to market. In the United States, mothers will return to work shortly after birth. They use breast pumps mainly in their workplace, so speed and quietness are requirements. In Turkey, they do not opt for large models, so compactness is important. As consumer preferences vary by market, we are geared to develop products that meet various needs.

**Q: Please describe the current coverage and the possibility of further expansion of the DME route as sales channels.**

A: We are poised to establish the DME route extensive enough to cover the entire United States. As it is a new initiative, it will take time; however, we believe we can grow further into the future.

**Q: You seem to be struggling with sales from the existing channels other than the DME route. Do you intend to expand sales from such non-DME channels, or otherwise reduce them in view of factors including profitability?**

A: We will focus not only on the DME route, but also on existing channels targeting mass market. With an eye on growing e-commerce, we are considering taking various measures to enable further growth at leading chains and stores.

#### **Domestic Baby & Mother Care Business**

**Q: You expect the Domestic Baby & Mother Care Business to grow at around 5% this year, but given the assumption that inbound tourism demand will not grow, what measures do you intend to take for further growth in Japan?**

A: The inbound tourist demand last year increased 28% year-on-year, but we forecast the figure for the current fiscal year will remain on a par with the previous year's level. Baby strollers and large-sized products, our focus categories, made a 24% year-on-year increase in the previous fiscal year, and we intend to achieve a significant growth in the current fiscal year as well. While introducing a variety of new products particularly in large-sized product categories, we also aim to increase our market share in categories where our presence is relatively low.

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