

Summary of Financial Results for the First Quarter of Fiscal Year Ending January 2018 [Japanese Standards] (Consolidated)

June 5, 2017

Name of Listed Company: Pigeon Corporation (Stock code: 7956)
 Listing: First Section, Tokyo Stock Exchange
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 Scheduled Filing Date of Quarterly Report: June 9, 2017
 Scheduled Commencement Date of Dividend Payments: —
 Preparation of Any Additional Explanatory Materials for Quarterly Financial Results: None
 Holding of Any Briefing Session for Quarterly Financial Results: None

1. Consolidated Business Performance for the First Quarter of Fiscal Year Ending January 31, 2018 (February 1 to April 30, 2017)

(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 April 30, 2017	23,977	5.4%	4,940	32.4%	4,858	35.0%	3,473	39.9%
1Q ended April 30, 2016	22,746	4.3%	3,732	3.8%	3,597	(1.8)%	2,482	0.5%

(Note) Comprehensive income: 1Q ended April 30, 2017 ¥3,316 million (116.8%)
 1Q ended April 30, 2016 ¥1,529 million (32.9% negative)

	Net Income per Share (¥)	Diluted Net Income Per Share (¥)
1Q ended April 30, 2017	29.00	—
1Q ended April 30, 2016	20.72	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
1Q ended April 30, 2017	72,607	53,637	72.0
FY ended January 31, 2017	78,889	53,736	66.4

(Reference) Shareholders' Equity: 1Q ended April 30, 2017 ¥52,286 million
 FY ended January 31, 2017 ¥52,387 million

2. Cash Dividends

	Annual Dividend (¥)				
	1Q-end	2Q-end	3Q-end	Year-end	Total
FY ended January 31, 2017	—	25.00	—	28.00	53.00
FY ending January 31, 2018	—				
FY ending January 31, 2018 (Forecast)		28.00	—	28.00	56.00

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

3. Consolidated Business Performance Forecasts for the Fiscal Year Ending January 31, 2018 (February 1, 2017 to January 31, 2018)

(% 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	99,800	5.5%	17,000	6.1%	17,000	3.3%	11,800	6.1%	98.53

(Note) Revision of forecasts to 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 April 30, 2017: 121,653,486

FY ended January 31, 2017: 121,653,486

2) Number of treasury stock at the period-end

1Q ended April 30, 2017: 1,892,017

FY ended January 31, 2017: 1,891,943

3) Number of average shares outstanding during the period (quarter accumulation)

1Q ended April 30, 2017: 119,761,516

1Q ended April 30, 2016: 119,761,829

* This quarterly financial results report is exempt from quarterly review.

* 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

During the consolidated first three-month period under review, although personal consumption lacked momentum, Japan's economy continued to recover at a gradual pace as a whole, thanks to continued recovery in corporate activities. On the other hand, conditions in the world economy remained uncertain. While overall inflation indices in the developed countries have risen due to recovery in resource prices, there is still the medium-term downward risk of deceleration in economic growth, caused by slackening export and import trade and foreign investment as well as mounting geopolitical tension.

Amid such economic circumstances, the Group developed the sixth medium-term business plan (for the period between the fiscal year ending January 2018 and the fiscal year ending January 2020), under the slogan of "Building our dreams into the future – by creating a bridge towards the Global Number One manufacturer of baby products –,” and has made efforts toward our further growth in the first year of this plan. In addition, we have set the following three basic strategies that would help us to expand the Group's business and improve its management quality.

- 1) Based on the Pigeon Way, create and implement all kinds of measures to achieve the goal of becoming 'an indispensable company' for the society and make our Vision "to be the baby product manufacturer most trusted by the world's babies and families, i.e. 'Global Number One'" come true.
- 2) A further increase in corporate value will be pursued through improvement in profitability and efficiency of the business, and maximization of cash flows. The organizational structure, management system and governance system will also be put in place and reinforced to ensure sustainable growth from a medium to long-term perspective.
- 3) During the three years of the sixth medium-term business plan, invest management resources giving priority to the key products and carry out strategic investments, laying solid foundations for the double-digit growth of Pigeon Group in the future.

During the consolidated first three-month period under review, we implemented strategies for each of our business and function on the basis of the above business policies. As the result, net sales amounted to ¥23,977 million (up 5.4% YOY), as supported by sales increases mainly in China and North America. Regarding earnings, operating income rose to ¥4,940 million (up 32.4% YOY) thanks to a reduction of approximately 3.2 percentage points in the sales cost ratio from the previous term. Ordinary income recorded ¥4,858 million (up 35.0% YOY), and net income attributable to owners of parent also increased to ¥3,473 million (up 39.9% 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:

- 1US\$: 113.60 yen (115.35 yen)
- 1 CNY: 16.56 yen (17.60 yen)

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

Our Group has a total of five reporting segments identified as: "Domestic Baby and Mother Care Business," "Child Care Service Business," "Health and Elder Care Business," "Overseas Business," and "China Business." Each segment is outlined below.

Please take note that in order to explain the profit status of each segment in a more detailed manner, we decided to record expenses in non-allocable operating expenses associated with the Research and Development Department, which had been included in the Adjustment section so far, in the segment profit of each reporting segment starting from this consolidated first three-month period.

In addition, we have made year-over-year comparisons by converting the figures in the same period of the last year into the figures calculated in accordance with the new calculation method after the

above revision.

Domestic Baby and Mother Care Business

Net sales of the segment amounted to ¥8,729 million (up 3.3% YOY). Segment profits increased to ¥1,752 million (up 28.8% YOY), thanks to enhancement in operation ratio of manufacturing plants as the result of a net sale increase, as well as effective use of selling, general and administrative expenses.

In this segment, we released “Baby Petit Ice,” the first hand-made ice cream for babies, in February. In addition, we released “Moisture Body Care Cream” for expectant mothers, which provides 24-hour moisture retention with a single treatment per day, and sales of the products have expanded at a good rate. Moreover, during the period under review, we have held a number of events planned as a part of our direct communications program such as our “Breast Feeding Seminar” for women expecting to give birth in the near future and a seminar about breastfeeding while parenting for health care professionals, organized 4 times. A total of approximately 500 women have participated. On “Pigeon Info,” which is a site that supports women during pregnancy, in childbirth, and those raising children, we are continuing updates of Pigeon's merchandise available, and do a range of measures to make the portal even more convenient to use for our customers by various improvements: for example, we provide the video introducing easy-to-push baby strollers in “Happy Travel,” Pigeon’s site focusing on baby strollers.

Child Care Service Business

Net sales of the segment amounted to ¥1,931 million (up 5.1% YOY). Segment profits increased to ¥53 million (up 34.5% YOY). We have launched two in-company child-care facilities, which we are currently operating while striving to improve the service quality.

Health and Elder Care Business

Net sales of the segment amounted to ¥1,681 million (down 6.2% YOY), due to weak sales of core products such as bottom wipes, body wipes and skin care products, which faced fiercer competition at retail store fronts, and segment profits decreased to ¥97 million (down 21.9% YOY). We will continue to focus on strengthening of sales activities toward retail stores and nursing care facilities further, and will ensure that the quality of our nursing care services is improved.

Overseas Business

Net sales of the segment increased to ¥5,845 million (up 7.3% YOY). Segment profits also increased to ¥1,606 million (up 49.9% YOY), thanks to the improvement of gross profit margin, as well as effective use of selling, general and administrative expenses. In North America and Europe, where we operate business mainly through Lansinoh Laboratories, Inc., one of our consolidated subsidiaries, sales of breastfeeding-related products including our flagship products such as nipple care cream, breast pads and milk bags are growing at a good pace, and sales of breast pumps are also expanding in North America where we supply the products through a new sales channel. In addition, sales activity in China (Lansinoh Laboratories Shanghai), our new initiative started last year, is also expanding steadily, and we will make efforts to expand our business there.

China Business

Despite the continuing trend of yen appreciation against the Chinese Yuan, net sales in this segment increased to ¥7,133 million (up 15.7% YOY), because sales of core products such as nursing bottles and nipples remained strong, particularly in the E-commerce channel. Segment profits increased to ¥2,126 million (up 25.9% YOY).

In this segment, we will continue to strengthen our activities toward the growing E-commerce market. In addition, we will aim to expand our operations using social networking services for invigoration of direct communication with consumers, and will continue to reinforce sales promotions at stores and offline sales activities aimed at hospitals and maternity clinics.

Other Businesses

Net sales of the segment amounted to ¥323 million (down 0.8% YOY), and the segment profits stood at ¥35 million (down 17.4% YOY).

(2) Explanation of Financial Position

1) Assets

As of April 30, 2017, our Group recorded total assets of ¥72,607 million, down ¥6,281 million from the previous consolidated fiscal year ended January 31, 2017. Both current and fixed assets decreased by ¥5,682 million and ¥599 million, respectively.

Current assets decreased mainly due to a decrease in cash and deposits of ¥7,340 million, despite increases in merchandise and finished goods of ¥906 million and in raw materials and supplies of ¥476 million.

Fixed assets diminished due to decreases in buildings and structures as well as in other tangible fixed assets of ¥155 million and ¥266 million, respectively.

2) Liabilities

As of April 30, 2017, our Group recorded total liabilities of ¥18,970 million, down ¥6,182 million from the previous consolidated fiscal year ended January 31, 2017. Both current and fixed liabilities decreased by ¥5,791 million and ¥390 million, respectively.

Current liabilities decreased mainly due to decreases in short-term borrowings and in current portion of long-term loans payable of ¥699 million and ¥5,000 million, respectively, despite increases in notes and accounts payable - trade of ¥341 million, in electronically recorded obligations – operating of ¥342 million and in accrued bonuses to employees of ¥343 million.

Fixed liabilities decreased, mainly because provision for special extra retirement payments decreased by ¥208 million after transferring it to current liabilities, and other fixed liabilities decreased by ¥203 million.

3) Net Assets

As of April 30, 2017, our Group recorded total net assets of ¥53,637 million, down ¥99 million from the previous consolidated fiscal year ended January 31, 2017.

Net assets decreased mainly due to a decrease in foreign currency translation adjustment of ¥216 million, despite an increase in retained earnings of ¥119 million.

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

For the "Sixth Medium-Term Business Plan (for the period between the fiscal year ending January 2018 and the fiscal year ending January 2020)," our Group has put up the following slogan, "Building our dreams into the future – by creating a bridge towards the Global Number One manufacturer of baby products –."

We will further develop and enhance our business operating system, while pursuing in the improvement of management quality and steadily implementing the measures grounded on the newly formulated strategies for each business segment and the functional strategy that serves as the foundation thereof. We find particularly important to continue to expand and enrich business in the existing markets regarding the Overseas and China businesses, which our Group still positions as growing fields. Moreover, we will aim at further improvement in business performance through actively pursuing new markets. In this consolidated fiscal year, the first year of our sixth medium-term business plan, we will strive to ensure completion of our plans.

2. Issues Regarding Summary Information (Notes)

(1) Significant Changes in Subsidiaries During the Period Under Review

Not applicable.

(2) Application of Any Accounting Procedures Specific to Preparation of Quarterly Consolidated Financial Statements

Not applicable.

3. Quarterly Consolidated Financial Statements**(1) Quarterly Consolidated Balance Sheets**

(Millions of yen)

	At January 31, 2017	At April 30, 2017
ASSETS		
I. Current Assets:		
Cash and deposits	30,052	22,711
Notes and accounts receivable - trade	16,103	16,015
Merchandise and finished goods	5,328	6,234
Work in process	261	180
Raw materials and supplies	2,013	2,489
Other current assets	1,512	1,951
Allowance for doubtful accounts	(26)	(20)
Total Current Assets	55,244	49,562
II. Fixed Assets:		
1. Tangible Fixed Assets:		
Buildings and structures, net	6,989	6,834
Land	5,683	5,685
Other tangible fixed assets, net	7,590	7,323
Total Tangible Fixed Assets	20,263	19,843
2. Intangible Fixed Assets:		
Goodwill	51	48
Other intangible fixed assets	1,055	1,096
Total Intangible Fixed Assets	1,106	1,145
3. Investments and Other Assets:		
Other	2,293	2,076
Allowance for doubtful accounts	(19)	(19)
Total Investments and Other Assets	2,273	2,056
Total Fixed Assets	23,644	23,045
Total Assets	78,889	72,607
LIABILITIES		
I. Current Liabilities:		
Notes and accounts payable - trade	4,857	5,199
Electronically recorded obligations - operating	1,693	2,035
Short-term borrowings	699	—
Current portion of long-term loans payable	5,000	—
Income taxes payable	2,324	1,524
Accrued bonuses to employees	929	1,272
Reversal of reserve for returned products	73	69
Provision for loss on litigation	37	35
Provision for special extra retirement payments	—	208
Other current liabilities	5,766	5,244
Total Current Liabilities	21,381	15,590
II. Fixed Liabilities:		
Net defined benefit liability	131	138
Provision for directors and corporate auditors' retirement benefits	445	457
Provision for special extra retirement payments	208	—
Other fixed liabilities	2,986	2,783
Total Fixed Liabilities	3,770	3,379
Total Liabilities	25,152	18,970

(Millions of yen)

	At January 31, 2017	At April 30, 2017
NET ASSETS		
I. Shareholders' Equity:		
Capital stock	5,199	5,199
Capital surplus	5,179	5,179
Retained earnings	42,280	42,400
Treasury stock	(948)	(948)
Total Shareholders' Equity	51,711	51,830
II. Accumulated Other Comprehensive Income:		
Valuation difference on available-for-sale securities	47	44
Foreign currency translation adjustment	628	411
Total Accumulated Other Comprehensive Income	676	456
III. Non-controlling Interests	1,349	1,350
Total Net Assets	53,736	53,637
Total Liabilities and Net Assets	78,889	72,607

(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 April 30, 2016	Three months ended April 30, 2017
I. Net Sales	22,746	23,977
II. Cost of Sales	12,348	12,263
Gross profit	10,398	11,714
Reversal of reserve for returned products	50	70
Transfer to reserve for returned products	56	69
Adjusted gross profit	10,391	11,715
III. Selling, General and Administrative Expenses	6,659	6,774
Operating Income	3,732	4,940
IV. Non-operating Income:		
Interest income	41	40
Share of profit of entities accounted for using equity method	—	5
Other non-operating income	47	67
Total Non-operating Income	88	113
V. Non-operating Expenses:		
Interest expense	20	4
Sales discounts	89	92
Share of loss of entities accounted for using equity method	0	—
Foreign exchange losses	106	90
Other non-operating expenses	6	7
Total Non-operating Expenses	223	195
Ordinary Income	3,597	4,858
VI. Extraordinary Income:		
Gain on sales of fixed assets	0	1
Gain on sales of investment securities	—	87
Total Extraordinary Income	0	88
VII. Extraordinary Loss:		
Loss on sales of fixed assets	0	0
Loss on disposal of fixed assets	2	13
Loss on liquidation of subsidiaries and associates	58	—
Total Extraordinary Loss	61	14
Income before Income Taxes	3,537	4,933
Income Taxes - current	1,649	1,718
Income Taxes - deferred	(643)	(315)
Total Corporate Income Tax	1,005	1,403
Net Income	2,531	3,529
Net Income Attributable to Non-controlling Interests	49	56
Net Income Attributable to Owners of Parent	2,482	3,473

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

(Millions of yen)

	Three months ended April 30, 2016	Three months ended April 30, 2017
Net Income	2,531	3,529
Other Comprehensive Income		
Valuation difference on available-for-sale securities	(3)	(2)
Foreign currency translation adjustment	(998)	(210)
Total Other Comprehensive Income	(1,001)	(213)
Quarterly Comprehensive Income	1,529	3,316
(Break down)		
Quarterly comprehensive income on parent company	1,536	3,253
Quarterly comprehensive income on non-controlling interests	(6)	63

**(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 April 30, 2016

1. Information Regarding Net Sales and Profit (Loss) in Each Reporting Segment

(Millions of yen)

	Reporting Segment						Other Businesses (Note 1)	Total	Adjustments (Note 2)	Amount Accounted on Quarterly Consolidated Statement of Income (Note 3)
	Domestic Baby and Mother Care Business	Child Care Service Business	Health and Elder Care Business	Overseas Business	China Business	Subtotal				
Net sales										
Net sales to external customers	8,451	1,838	1,792	4,228	6,109	22,420	326	22,746	—	22,746
Internal sales or exchange between segments	—	—	—	1,217	54	1,271	—	1,271	(1,271)	—
Total	8,451	1,838	1,792	5,446	6,163	23,692	326	24,018	(1,271)	22,746
Segment profit	1,359	39	125	1,071	1,688	4,285	42	4,327	(594)	3,732

(Notes)

1. The “Other Businesses” classification refers to businesses not included in the reporting segments, and consists of our Group’s manufacturing subsidiaries, but also of those manufacturing and selling products to companies outside our Group.
2. The negative amount of ¥594 million from adjustments in segment profits includes ¥82 million in elimination of intersegment transactions, and a negative ¥677 million in non-allocable operating expenses. Non-allocable operating expenses are administrative costs of our Group.
3. Segment profits are adjusted to operating income in the quarterly consolidated statement of income.

Three months ended April 30, 2017

1. Information Regarding Net Sales and Profit (Loss) in Each Reporting Segment

(Millions of yen)

	Reporting Segment						Other Businesses (Note 1)	Total	Adjustments (Note 2)	Amount Accounted on Quarterly Consolidated Statement of Income (Note 3)
	Domestic Baby and Mother Care Business	Child Care Service Business	Health and Elder Care Business	Overseas Business	China Business	Subtotal				
Net sales										
Net sales to external customers	8,729	1,931	1,681	4,217	7,092	23,653	323	23,977	—	23,977
Internal sales or exchange between segments	—	—	—	1,627	40	1,668	—	1,668	(1,668)	—
Total	8,729	1,931	1,681	5,845	7,133	25,322	323	25,645	(1,668)	23,977
Segment profit	1,752	53	97	1,606	2,126	5,635	35	5,671	(730)	4,940

(Notes)

1. The “Other Businesses” classification refers to businesses not included in the reporting segments, and consists of our Group’s manufacturing subsidiaries, but also of those manufacturing and selling products to companies outside our Group.
2. The negative amount of ¥730 million from adjustments in segment profits includes a negative ¥35 million in elimination of intersegment transactions, and a negative ¥694 million in non-allocable operating expenses. Non-allocable operating expenses are administrative costs of our Group.
3. Segment profits are adjusted to operating income in the quarterly consolidated statement of income.

2. Changes in Reporting Segments, etc.

In order to understand our profit status of each segment in a more detailed manner, we decided to report expenses in non-allocable operating expenses associated with the Research and Development Department, which had been included in the Adjustment section so far, in the segment profit of each reporting segment starting from this consolidated first three-month period.

The segment information in the consolidated first three-month period in the last fiscal year is adjusted in accordance with the new segment profit calculation method after the above revision.