

**Summary of the Results Briefing for the FY December 2022**  
**and the Announcement of the 8th Mid-Term Plan**

**Note:**

This Summary is a reference for those who would like to review the session or event of the results briefing held by Pigeon Corporation.

Please note this is not the entire text of the conference but a summary based on our judgment. Forward-looking statements in these materials are based on management's assumptions and beliefs in light of the information currently available to it and involve known and unknown risks, uncertainties and other factors. Such risks, uncertainties and other factors may affect the Company's performance.

In the event of discrepancy between the English version and the Japanese version of the summaries, the Japanese-language version shall prevail.

**Date:** Tuesday, February 14, 2023, 4:30 p.m. start

<b>Speakers:</b>	President and CEO	Norimasa Kitazawa
	Director and Senior Managing Executive Officer	Tadashi Itakura
	Director and Managing Executive Officer	Yasunori Kurachi
	Director and Executive Officer	Kevin Vyse-Peacock
	Senior Managing Officer	Ryo Yano

## #1: Selected the FTSE Russell's Investment Index

Selected for the first time in the FTSE4Good Index Series and the FTSE Blossom Japan Index, global ESG (environmental, social and governance) investment indexes designed by FTSE Russell (UK)

# of selected companies

**1,658 companies worldwide\*.**



**FTSE4Good**

# of selected companies

**Japan 255 companies\*.**  
(Our company is in the top 66)



**FTSE Blossom  
Japan Index**

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4

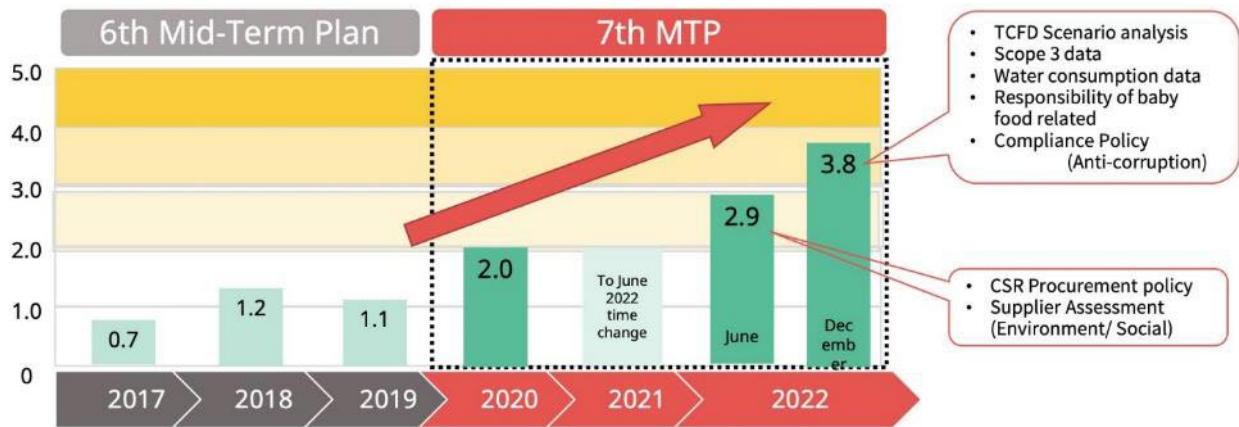
**Kitazawa:** Thank you very much for taking time to attend our briefing today.

First, let us share with you some of the highlights of this fiscal year. First, I will tell you about sustainability. Last year, we were selected as a constituent of the FTSE Russell's investment index “FTSE Blossom Japan Index,” and we are ranked 66th in the index.

It was also selected for inclusion in the “FTSE4Good Index”, another FTSE Russell index, from which only 1,658 companies worldwide are selected.

## #2: Improved FTSE ESG Rating (Yr 2017-2022)

The Pigeon Group's reputation has improved significantly by strengthening "Corporate Social Responsibility (Environmental/Social)" actions and disclosures



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5

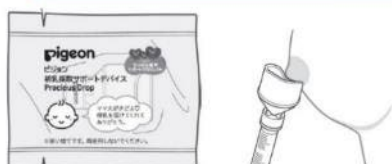
Next is the ESG rating. When I became a president of Pigeon in 2019, our FTSE ESG Rating was 1.1. However, as of last year, this score had risen to 3.8 as a result of our efforts to address and disclose our corporate social responsibility. I do appreciate such great achievement delivered by hard work of our employees.

### #3: Commercialization from PFA project

#### What is the Pigeon Frontier Awards (PFA)?

PFA encourages and rewards employees for out-of-the-box ideas for our future growth. Once a year, we are gathering any new business ideas and concepts from our passionate employees, and the proposals that are awarded as excellent initiatives got an opportunity to commercialize.

#### Precious Drop Colostrum collection support device



Welcomed by medical professionals and now expanding distribution to Perinatal Medical Centers, hospitals, and clinics throughout Japan.

#### Pigeon's Parenting (Comic Essay)



A book based on "childcare reports" written by hundreds of Pigeon employees is now on sale from KADOKAWA Co.

We have a business proposal system called PFA (Pigeon Frontier Awards), and the products and services that have developed from this system are gradually becoming commercialized. For example, “Precious Drop,” a colostrum collection device for hospitals and maternity hospitals, is now being accepted by hospitals and clinics throughout Japan.

In addition, on January 19, 2023, a book titled “Pigeon's Child Rearing” was released by KADOKAWA Co. This book is based on the “child-rearing reports\*” of employees that have been accumulated within Pigeon over the years.

(\*All of our employees who have a child are required to submit a report on their own child-rearing experiences and the insights they gained from these experiences.)

## Changes in the External Environment and Challenges for the Pigeon Group

### Global Environmental Changes

- Establishment of "With Covid" lifestyle
- Signs of stagflation  
(Economic Recession and Inflation)
- Rapid exchange rate fluctuations
- Sustainability Awareness rise
- Increased geopolitical risk

### Challenges for Pigeon Group

- Decrease in the number of births  
In Japan and mainland China, which  
are our mainstay markets
- Slowdown in growth at Japan and  
China business
- Increased competition in each market  
(Rise of new and local brands)

## Pandemic of Covid-19 Rapidly Changes Our Business Environment

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8

Before we start reporting on our business performance, we would like to review our business environment.

As you are probably aware of the changes in the global environment, our business environment has changed drastically during the period of the 7th Mid-Term Management Plan, including a decline in the number of births worldwide, including Japan and China, a slowdown in growth in our core markets of Japan and mainland China, and increased competition in each market with the rise of emerging and local brands. The Company's business environment has changed drastically during the period of the 7th Mid-Term Management Plan.

## FY Dec. 2022 Results : Consolidated P&L

Announced downward revision of Full-year forecast in August due to the impact of Covid-19 pandemic in mainland China.  
Consolidated group net sales and operating income for the full-year of 2022 ended on par with the revised forecast.

Unit: Million JPY	Forecast for FY Dec. 2022		FY Dec. 2022 Actual				
	Original Forecast	Revised Forecast	Actual	% of Total	vs Original Forecast	vs Revised Forecast	YoY Change
Net Sales	98,700	95,000	<b>94,921</b>	100.0%	96.2%	<b>99.9%</b>	<b>102.0%</b>
Cost of Sales	50,600	50,700	<b>50,087</b>	52.8%	99.0%	<b>98.8%</b>	<b>102.2%</b>
Gross Profit	48,100	44,300	<b>44,834</b>	47.2%	93.2%	<b>101.2%</b>	<b>101.7%</b>
SG&A Expenses	33,900	32,300	<b>32,638</b>	34.4%	96.3%	<b>101.0%</b>	<b>106.2%</b>
Operating Income	14,200	12,000	<b>12,195</b>	12.8%	85.9%	<b>101.6%</b>	<b>91.4%</b>
Ordinary Income	14,300	13,000	<b>13,465</b>	14.2%	94.2%	<b>103.6%</b>	<b>91.9%</b>
Net Income Attributable to Owners of Parent	9,500	8,550	<b>8,581</b>	9.0%	90.3%	<b>100.4%</b>	<b>97.7%</b>

[FY Dec. 2022 Currency Rates] Budget: US\$1 = JPY 112.00 / CNY 1 = JPY 17.50  
Full year Results: US\$1 = JPY 131.55 / CNY 1 = JPY 19.50  
(Reference) FY 2021 Results: US\$1 = JPY 109.85 / CNY 1 = JPY 17.03

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9

In this environmental changes, here are business results for the FY December 2022, the final year of the 7th MTP.

Net sales ended at 102% yoy. Operating income was 91.4% yoy, but was generally in line with the revised plan, at 99.9% of net sales and 101.6% of operating income.

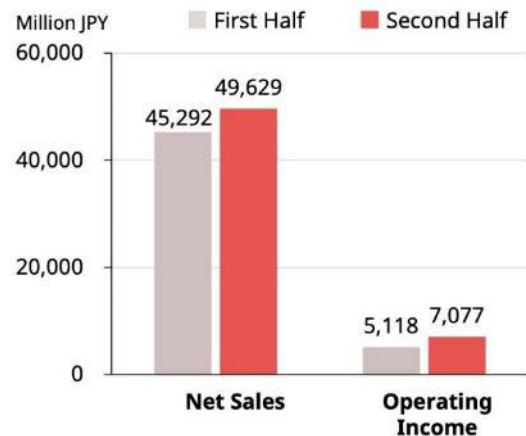
## FY Dec. 2022 Results : Consolidated P&L

In FY Dec. 2022, our business were on a recovery trend through the second half of the year, and ended the year with a 2% increase in net sales over the previous year.

[ FY Dec. 2022 Results - YoY performance ]

	Net sales	Operating income
First Half	95.8%	67.4%
Second Half	108.4%	123.2%
YTD total	102.0%	91.4%

[ Results of FY Dec. 2022 by half-year period ]



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10

We made a table comparing H1 and H2 of last year.

Looking at the first half of last year alone, both net sales and operating income were lower than the previous year. On the other hand, in the second half of the year alone, sales were 108.4% yoy and operating income was 123.2% yoy, indicating a recovery trend.

Looking at the Q3 alone and the Q4 alone, sales and profits are up from the previous quarter, and we believe the recovery trend will continue in the next year.



## FY Dec. 2022 Results : by Business Segment

Unit: Million JPY	FY Dec. 2021 Actual				FY Dec. 2022 Actual				
	Net Sales	% of Total	Gross Margin	Segment Profit	Net sales	% of Total	YoY Change	Gross Margin	Segment Profit
<b>Consolidated Net Sales</b>	<b>93,080</b>	<b>100.0%</b>	<b>47.3%</b>	<b>13,336</b>	<b>94,921</b>	<b>100.0%</b>	<b>102.0%</b>	<b>47.2%</b>	<b>12,195</b>
Japan Business	38,264	41.1%	34.3%	2,065	36,323	38.3%	94.9%	32.4%	1,491
China Business	37,239	40.0%	50.9%	11,792	34,776	36.6%	93.4%	52.5%	10,408
Singapore Business	12,619	13.6%	38.7%	1,811	14,153	14.9%	112.2%	40.9%	2,140
Lansinoh Business	13,320	14.3%	53.5%	953	16,917	17.8%	127.0%	52.9%	1,154
Elimination of inter-segment transactions	(8,363)	(9.0%)	-	-	(7,248)	(7.6%)	-	-	-

### [Reference] Breakdown of Japan Business

Unit: Million JPY	FY Dec. 2021 Actual				FY Dec. 2022 Actual				
	Net sales	% of Total	Gross Margin	Segment Profit	Net sales	% of Total	YoY Change	Gross Margin	Segment Profit
Baby care	25,701	-	40.4%	2,359	25,287	-	98.4%	36.8%	1,787
Childcare Services	3,504	-	16.1%	159	3,444	-	98.3%	15.8%	199
Health & Elder Care	5,616	-	30.4%	504	5,062	-	90.1%	30.9%	497

These are the results by business segment.

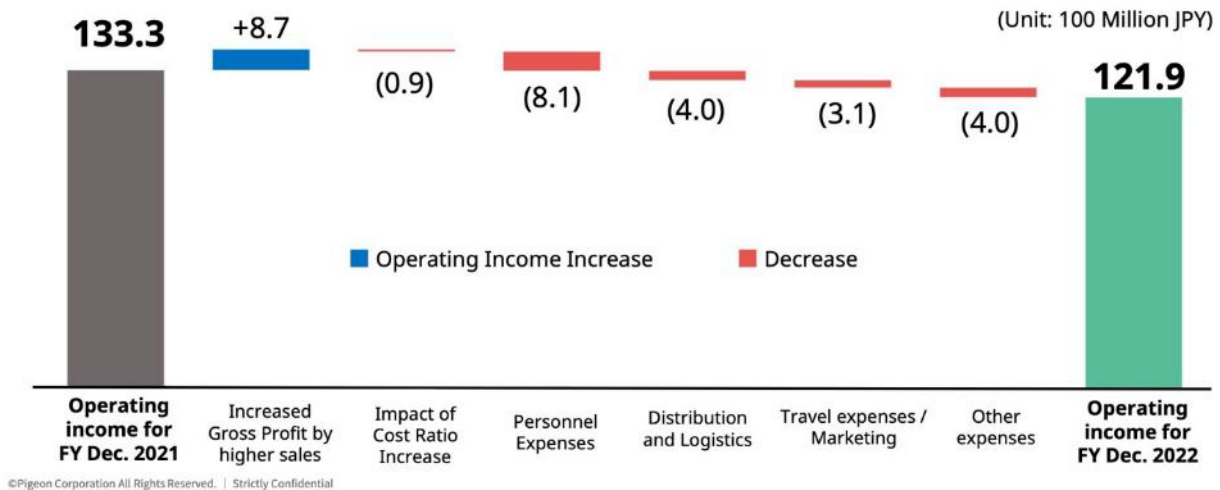
In terms of sales, while the Japan and China businesses were below the previous year's levels, the Singapore and Lansinoh businesses performed very well, with sales up 112.2% and 127.0%, respectively, from the previous year.

In terms of the breakdown of our Japan business, sales in Baby Care, Childcare Services, and Health & Elder Care all ended the year below the previous year's level, but we believe that the business environment in Japan is gradually improving, as evidenced by the modest YoY decline in Baby Care sales.



## FY Dec. 2022 Results : Operating Income YoY Changes

Operating income decreased from the previous year due to an increase in personnel expenses (Lansinoh business and China business including the impact of FX rates), logistics expenses (Lansinoh business) as well as travel expenses and marketing-related expenses.



12

Factors behind the year-on-year change in operating income.

The increase in profits was due to an increase in gross profit of about 800 million yen as a result of increased revenues.

On the other hand, the decline in profit was largely due to an increase in labor costs, but this was also due to the fact that we did not reduce labor costs more than necessary in each business with an eye to the future.

In addition, logistics costs were a factor in the profit decline of about 400 million yen, mainly due to the impact of higher ocean freight rates in Lansinoh.

In addition, since the second half of last year, business activities in various countries have become more active after the Covid, and the increase in travel and transportation expenses and marketing expenses were factors in the decline in operating income.

**FY Dec. 2022 : Consolidated Balance Sheet (Highlights)**

Unit: Million JPY	End of FY Dec. 2021	End of FY Dec. 2022			
	Actual	Actual	YoY Change (Amount)	YoY Change (%)	YoY Change (Amount) w/o impacts of FX rates
<b>Cash and Deposits</b>	35,218	34,283	(934)	97.3%	(2,408)
<b>Notes and Accounts Receivable-Trade</b>	16,253	15,975	(277)	98.3%	(1,181)
<b>Inventories</b>	12,706	15,318	+2,611	120.5%	(1,587)
<b>Notes and Accounts Payable-Trade</b>	4,087	5,066	+979	124.0%	805
<b>Electronically Recorded Obligations - Operating</b>	1,623	1,542	(81)	95.0%	(81)
<b>Borrowings</b>	—	—	—	—	—
<b>Net Assets</b>	76,810	79,952	+3,142	104.1%	(123)
<b>Total Assets</b>	98,042	101,733	+3,691	103.8%	(1,021)
<b>Equity Ratio</b>	75.4%	75.4%	—	—	—

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13

B/S Highlights. Cash and deposits decreased slightly compared to the end of the previous year. Accounts receivable also decreased. We expect inventories to improve in 2023.

The rightmost figure in the table shows the YoY change in the BS line item excluding the impact of FX rates.

## FY Dec. 2022 : Summary by Business Segment

\*Sales: Sell-in on a local currency

<p><b>Japan</b> business</p>	<p><b>Renewal of the Nursing bottles marks higher growth throughout the year and consumables struggled. Increased procurement costs put pressure on profits throughout the year.</b></p> <ul style="list-style-type: none"> <li>• Baby care YTD sales declined 1.6% yoy. But Q4 alone sales increased 7.2% yoy and see some recovery trend.</li> <li>• YTD Sales of the Nursing bottles increased 23% yoy. YTD sales of Baby skincare declined yoy, but grew by double digits in the Q4 alone because of launch of new products and successful in-store promotions. Sales of consumables struggled throughout the year due to increased demand for low-priced products.</li> <li>• Gross margin of Baby Care decreased by 3.6pt yoy in YTD driven by increased procurement costs due to yen depreciation and raw material price hikes.</li> <li>• YTD sales of Health and Elder Care declined by 0.5 billion yen yoy due to a review of the product portfolio, but gross margin improved by 0.5 pt.</li> </ul>
<p><b>China</b> business</p>	<p><b>Covid spreads in mainland China in Q4 delayed market recovery, but market share of our Nursing bottles recovered to 44%.</b></p> <ul style="list-style-type: none"> <li>• Mainland sales (YTD): -19% yoy due to the impact of the Shanghai lockdown in Q2 that remained through the full year.</li> <li>• Our mainstay products are #1 in the brand ranking of Double-Eleven however weak consumer spending compared to previous years.</li> <li>• Gross margin improved by 1.6 pt yoy in YTD due to increased sales mix of the Nursing bottles (complete replacement to the new models) and Baby skincare.</li> <li>• Sell-out was down 12% yoy in YTD. EC was down 8% yoy, Tiktok grew significantly however major EC channels were down.</li> </ul>



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14

### Summary by Business.

In the Japan business, sales of baby care business continued to struggle for consumables such as Wet tissues and Nursing pads, while the effect of renewal of Nursing bottles continued throughout the year. On the profit, procurement costs increased due to the weak yen and soaring raw material prices, which continued to squeeze profits throughout the year.

In the China business, the market recovery was delayed due to the temporary market disruption caused by rapid changes in the Q4, including the elimination of the zero-covid policy and the subsequent re-spread of Covid. Despite such circumstances, the market share of Nursing bottles dropped in the first half of 2022 due to the Shanghai lockdown, but recovered to approximately 44% at the end of the year, almost back to the previous market share.

The picture on the bottom right of the slide shows a new skincare product for children over 3 years old, which was launched in China at the end of last year. This is also doing well, and we are very much looking forward to seeing it grow even more in 2023 and beyond.

## FY Dec. 2022 : Summary by Business Segment

### Singapore business

**Major markets performance exceeds pre-Covid level (Yr 2019). Strengthening business activities for further growth**

- YTD sales in India +23% yoy, Malaysia +19% yoy, Indonesia +19% yoy, Middle East +10% yoy.
- YTD sales (JPY) of Core products (Nursing bottles, Breast pumps, Baby skincare, and Oral care) grew by more than 20% yoy. New products in Nursing bottles and Baby skincare also contributed significantly for growth.
- Gross profit (JPY) in YTD increased by 18% yoy due to increased sales by sales companies and the effect of FX rates, etc. Gross margin also improved by 2.1pt yoy.

### Lansinoh Business

**Sales remained strong, although profits were weak due to the continued impact of rising logistics costs throughout the year.**

- Lansinoh Group sales up 5% yoy in YTD.
- Sales in North America were strong (+10% yoy), but Europe struggled due to inflation and economic downturn.
- Mainstay products performed well especially in North America. Maintained dominant market share in North American market for four products: Nipple cream, Manual breast pump, Breast milk storage bag, and Nursing pads.
- Gross margin in YTD was down 0.6 pt yoy due to the continued impact of higher logistics costs throughout the year and pushing down gross profit.



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15

The Singapore business finally exceeded its pre-Covid performance last year. In terms of sales in local currency, sales in India grew by 23% over the previous year, while sales in Malaysia and Indonesia grew by 19% each, and sales in the Middle East also grew by 10%.

Lastly, in the Lansinoh business, the high cost of logistics had a negative impact on profit decline throughout the year. In terms of sales, the Lansinoh Group as a whole performed well, growing 5% over the previous year. Turkey also performed very well in local currency, but the extreme depreciation of the Turkish lira resulted in a considerable decline in sales recorded in US dollars.

## Review of the 7th MTP: Summary

**Not achieved financial targets because of the intermittent COVID-19 impacts in each region throughout the three years. However, there were still certain achievements such as promotion of key strategies, achievement of non-financial targets, and ESG-related awards.**



Next part, we will review the 7<sup>th</sup> MTP.

In terms of brand strategy, Pigeon's brand image has been unified worldwide through activities in line with the new branding on a global basis. In addition, we have been implementing a variety of new initiatives, such as support for breast milk banks.

As for our product strategy, we have launched new models of Nursing bottles in many countries around the world and have completed their introduction in major markets. Even in mainland China, 90% of the market has switched to new models.

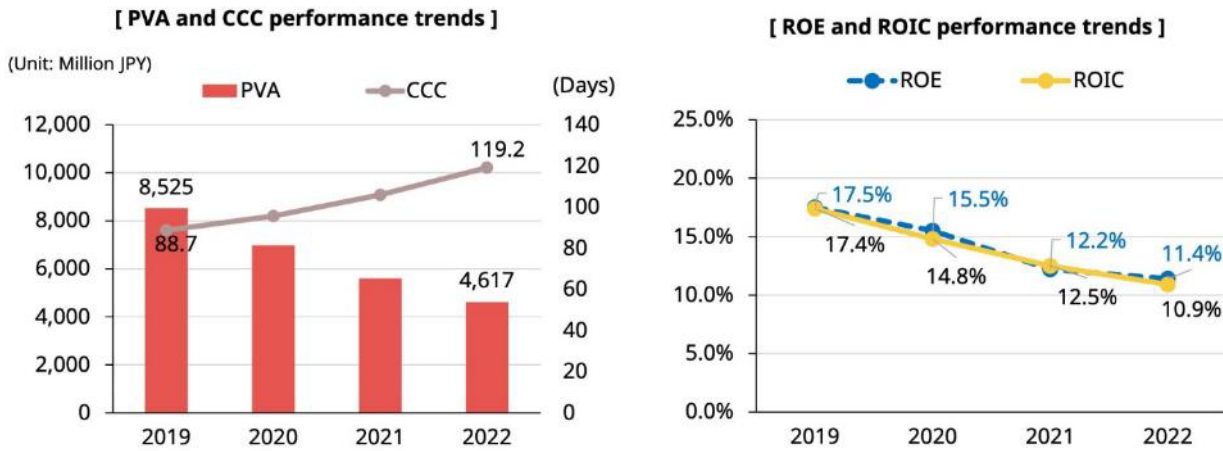
As for regional strategies, the Group launched more than 250 SKUs of new products every year. However, a major challenge in Japan is that inbound demand has almost disappeared.

ESG, as we explained earlier, is doing very well, as are FTSE scores, etc.



## Review of the 7th MTP: Key KPIs

Key management indicators such as PVA, CCC, ROE and ROIC are ended lower than the final year of the 6th Medium-Term Management Plan



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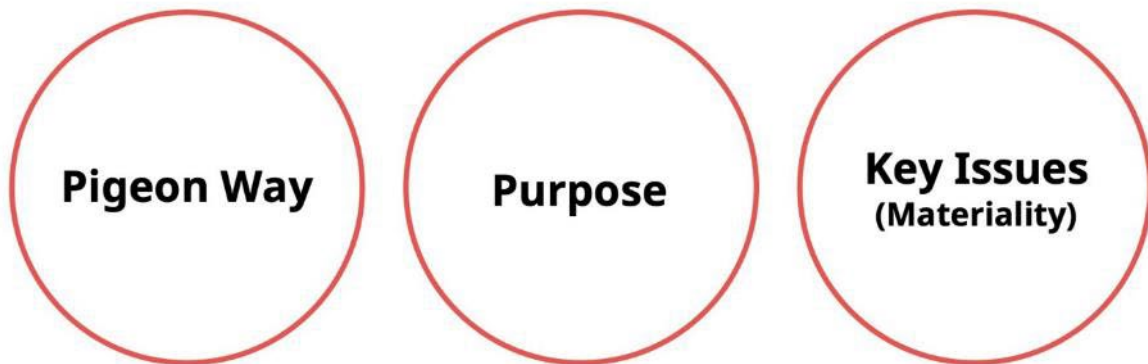
Note: 2019 is the old standard results

18

### Key KPIs.

As for PVA, there was a downward trend, partly due to a decrease in operating income. On the other hand, the CCC ended the year at 119 days due to global logistics disruptions and other factors, especially an increase in inventories. Unfortunately, ROE and ROIC also trended downward.

## Three Key Elements in our Business Activities



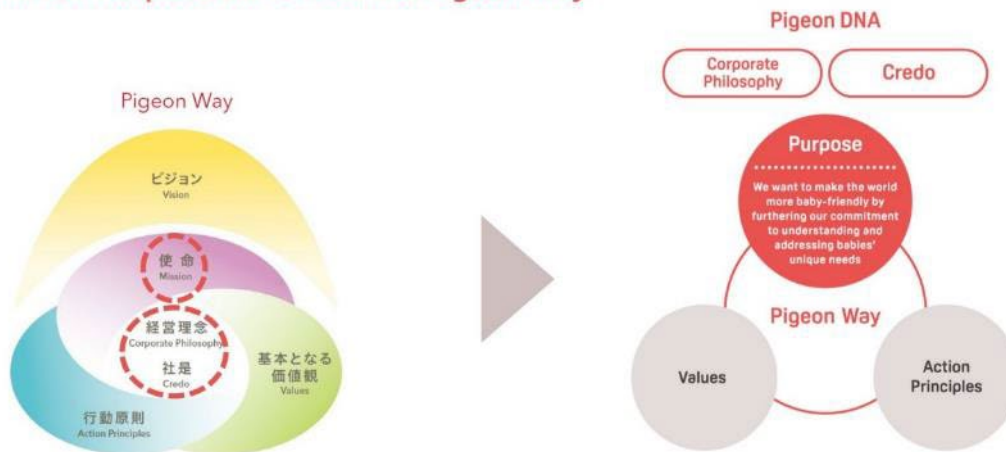
The future business activity policy of the group.

We will continue to operate according to the Pigeon Way, but in particular, we will highlight our Purpose and address Key Issues (Materiality).



## Update of Pigeon Way

- Separate out our Corporate Philosophy and Credo as independent, unchanging elements
- Make our Purpose the core of the Pigeon Way



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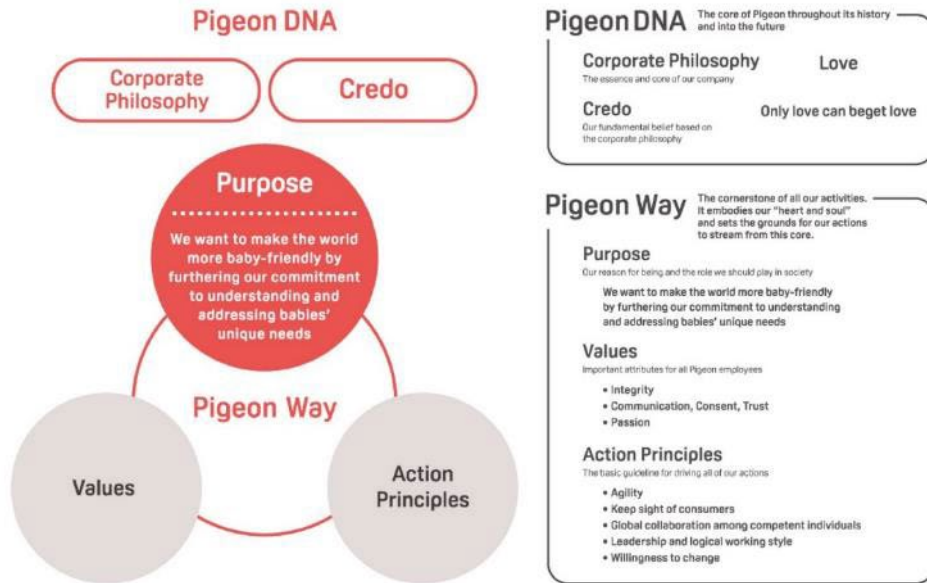
21

As for Pigeon Way, we have updated it this year.

Original Pigeon Way was on the left. Then “Mission” was changed to the “Purpose”. This year, we have removed “vision” from the Pigeon Way, and have placed “Purpose” at the core of the Pigeon Way, as shown on the right, with the aim of thoroughly focusing our activities on the Purpose.






Our Corporate Philosophy and Credo have been set as “Pigeon DNA”, unchanging elements of the Pigeon group.

## Update of Pigeon Way



Here is our new corporate philosophy.

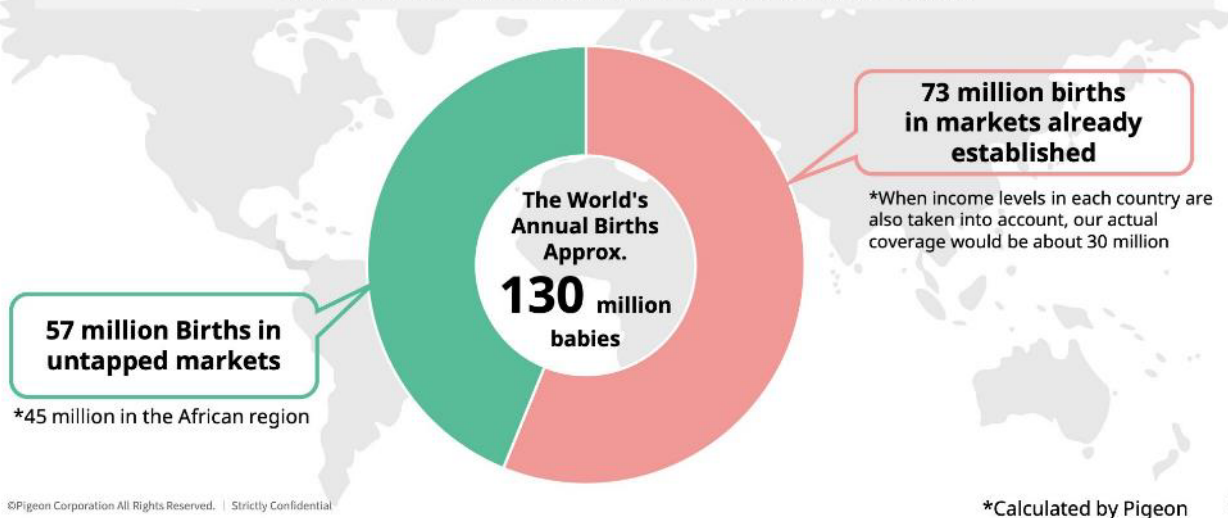
## Key Issues for Pigeon over the Mid and Long-term (Materiality)

 <p><b>Enhancing Business Competitiveness and Resilience</b></p> <p>Becoming essential to society by expanding our corporate value over the medium to long term</p> <ul style="list-style-type: none"> <li>Supporting nursing babies</li> <li>Supporting healthy baby skin development</li> <li>Creating new businesses</li> <li>Releasing products that exceed customer expectations</li> <li>Building resilient distribution systems</li> </ul>	 <p><b>Reducing our Environmental Impact</b></p> <p>Practicing eco-friendly <i>monozukuri</i> and leaving a rich earth for the future of babies born tomorrow</p> <ul style="list-style-type: none"> <li>Reducing greenhouse gas emissions (Scope 1, 2 &amp; 3)</li> <li>Circular manufacturing</li> <li>Using sustainable resources (paper &amp; palm oil)</li> </ul>	 <p><b>Contributing to the Resolution of Social Issues</b></p> <p>Helping to resolve the social issues that affect babies and families</p> <ul style="list-style-type: none"> <li>New products and services for babies needing support</li> <li>Expanding use of products designed for maternity hospitals</li> <li>Promoting responsible procurement</li> <li>Participating in and supporting communities</li> </ul>	 <p><b>Managing talent and Cultivating the Right Culture for our Purpose</b></p> <p>Cultivating an organizational culture in which all employees can shine as they embrace new challenges</p> <ul style="list-style-type: none"> <li>Working environments that achieve self-fulfillment and growth</li> <li>Ambitious organizational culture</li> <li>Enriched investment in human resource development</li> <li>Promoting Diversity &amp; inclusion</li> </ul>	 <p><b>Establishing solid management foundations</b></p> <p>Securing a structural basis for bold and ambitious endeavors that will improve medium- to long-term corporate value</p> <ul style="list-style-type: none"> <li>Reinforcing group governance</li> <li>Reinforcing compliance</li> <li>Reinforcing risk management</li> <li>Dialogue with stakeholders</li> </ul>
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Key Issues (Materiality) will also be updated. We have five items starting in 2023. We will also further strengthen various governance and compliance systems.

## Current birth coverage (estimated under the Pigeon brand)

While the number of births is declining worldwide, our global coverage of births is still around 50%. Considering income levels and other factors in each country, future market opportunities remain large even in markets where we have already established a presence.



We will talk about our current coverage of births. Right now, the world's annual birth population is about 130 million. In 2019, it was about 140 million per year, so it is still true that Covid has had some impact.

However, our Pigeon brand has reached only about 30 million babies (about 25%) out of the approximately 130 million babies born worldwide, taking into account income levels and other factors in each country. Therefore, even though the number of births is declining worldwide, we believe the market opportunity for Pigeon remains huge.

## 8th MTP: Themes and Key Strategy

### For Sustainable Growth

Restructuring of business structure in response to global economic, political, and environmental changes

#### Key Strategy (deepening the ones of the 7th MTP)

##### Brand Strategy

Centered on “Purpose” for our business activities and strengthening brand power through products

##### Product Strategy

Strengthen “*Monozukuri*”, focus on core categories (Nursing bottles and Skincare), and explore the “New areas”

##### Regional Strategy

- Strengthen autonomous business operation by each SBU.
- Implement the drastic structural reform to establish production and sales systems tailored to market characteristics, improve efficiency and profitability, stabilize the supply chain, and prepare for the expansion of the new markets.

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26

The theme of the 8th Mid-Term Management Plan, which began in 2023, is “For Sustainable Growth”.

Within this broad direction, we have set the theme of restructuring our business structure in response to global economic, political, and environmental changes.

The previous medium-term plan was the three years of the Covid disaster, and there are some areas where we are hurting as a business. We will fine-tune and restructure these areas while taking measures to further accelerate growth in the 9<sup>th</sup> MTP and beyond.

The three Key strategies will continue from the 7<sup>th</sup> MTP, but will be further deepened.

In our brand strategy, we will focus on improving our brand strength through our products.

In terms of product strategy, while continuing to focus on our core products of Nursing bottles, Nipples, and Baby skincare, we plan to expand our business by expanding into new areas such as mothers, mothers-to-be, women's care, fathers, or toddlers and beyond.

In terms of regional strategy, we will further strengthen our four-business structure and consider entering new markets, such as Africa, for example.

## 8th MTP: Key Actions

### Implementation of structural reforms

Sustained growth in “Existing areas” and exploration and cultivation of “New areas”

#### Existing Business Areas

- **Strengthen nursing bottles and baby skincare which we have a strong competitive edge.**
- **Structural reforms in each business**
  - Lansinoh and Singapore business: Accelerating Growth
  - China business: From "High-Growth" to "Stable-Growth"
  - Japan Business: Improve the profitability

#### New Business Areas

- **Expansion of core customer target group**
  - Toddlers
  - Mothers To Be
  - Fathers
- **Expansion of our target market**
  - North America (Pigeon brand)
  - Africa region

**[Common in Existing and New areas] Strengthen Brand strategy and “Monozukuri”**

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27

Within the structural reform of the business, we have established “existing business areas” and “new business areas”.

In the “existing business areas”, we will focus on core products such as Nursing bottles, Nipples and Baby skincare products.

By business segment, sales in the Singapore and Lansinoh businesses have been strong in the last year, and we will continue to accelerate growth in the 8th MTP.

The China business will further develop its business foundation for stable growth.

Since the profit margin of the mainstay Baby Care business in Japan dropped significantly during the previous mid-term plan period, we will first take measures such as increasing high value-added products in order to improve profitability.

With regard to new areas, we will expand our target customers, such as toddlers, mothers, mothers-to-be, and fathers, as well as the areas in which we operate, such as North America and Africa. In North America, Pigeon brand products are already sold through our mainstay e-commerce sites, but we will consider introducing Pigeon brand products to major chain stores and establishing Pigeon brand sales offices in Africa as well.



## Brand Strategy: What we aim for at the 8th MTP

Centered on “Purpose” for our business activities and strengthening brand power through products

We draw up the future community which Pigeon aim for from a long-term perspective and promote business activities aimed at **realizing our Purpose**



Brand Strategy. All of our activities are based on our Purpose, and to embody this Purpose, we have established the “Vision of a Baby-Friendly Future”. For more details, you can check our news release announced on our website.



## Brand Strategy: What we aim for at the 8th MTP

Points to be strengthened

Most important

**Distinctiveness**

### Sharpen "distinctiveness of Pigeon"

Embody strength and distinctiveness of Pigeon through products and services. Impress customers with distinctive brand experience.

**Coherence**

### Provide a consistent brand experience

Ensure consistent communication at all points of contact with customers.

**Participation**

### Engage in collaboration with customers and society

Generate dialogue with customers. Actively incorporate customers' opinion into products and services.

Engage in collaboration with society to realize "Baby-friendly future".

We also believe that the key to strengthening our brand is to reinforce the uniqueness that is "unique to Pigeon".

In addition, we will work to create a consistent brand experience (coherence) and to involve and co-create with customers and society (Participation).

## Product Strategy: Strengthen our “Monozukuri”

**Monozukuri expenses\* in the final year of the 8th MTP are planned to increase to about 1.5 times the 2022. Strengthen lifestyle proposals, new materials, response to local needs and new areas, etc.**

### \*What are “Monozukuri expenses” ?

Total amount of all expenses related to our “monozukuri” activities. In addition to conventional R&D expenses, this includes expenses for product planning, etc.

### Example of strengthen our “Monozukuri”

1) Baby bottle steam sterilization dryer  
POCHItto (Japan)

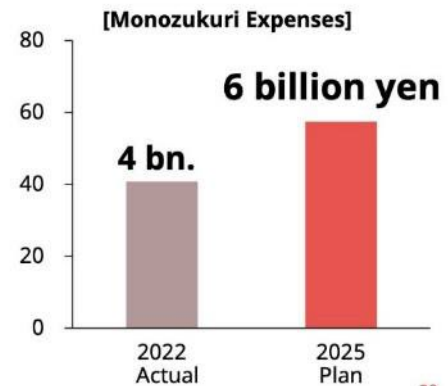


▲▲ new proposal for sterilizing baby bottles that has never been seen before in Japan, and the convenience of fully automated sterilization, drying, and storage has been well received. Highly rated 4.9 stars on a major e-commerce.

2) SLIM NECK STEEL  
FEEDING BOTTLE (India)



▲Stainless steel tableware is widely used in India. Stainless steel baby bottle developed with a focus on Indian culture. Sales exceeded expectations.



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32

Next is “Monoxukuri”.

In addition to conventional R&D, we will further invest in “*Monozukuri* (manufacturing enhancement)” and plan to expand its expenses to approximately 6 billion yen by 2025.

An example of “*Monozukuri*” introduced here is the Steam sterilizer/dryer called POCHItto on the left. This product originally sold well in overseas markets, but there was no such product in Japan because Japanese consumers did not have the lifestyle of using such an appliance to sterilize Nursing bottles. However, when we finally tried to market this product in Japan, sales have been strong, despite its high unit price, and it has been well received by Japanese consumers.

The photo on the right shows a stainless steel Nursing bottle sold in India. It is a simple stainless steel nursing bottle with no heat-retention function, but this stainless steel nursing bottle is very popular among consumers in India, partly because stainless steel tableware is widely used on a daily basis culturally in India. The stainless steel nursing bottle has recently been launched and is performing better than expected.

In this way, we will strengthen “*Monozukuri*” from various directions, including horizontal development of products that are being developed in other countries and product development tailored to the needs of customers in each country.

## Product Strategy: Nursing Bottles and Nipples

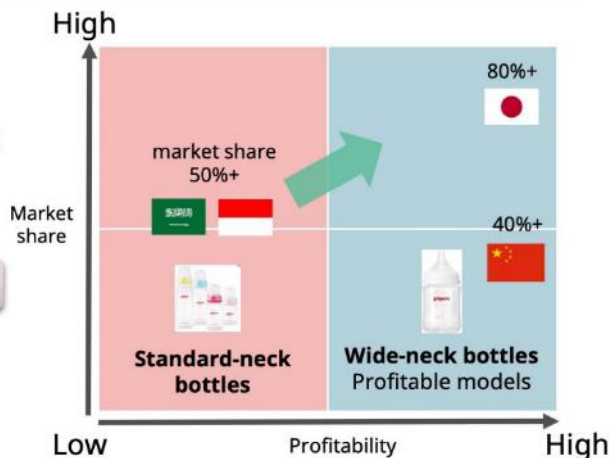
**Aiming to increase global sales volume and value of wide-neck nursing bottles.**  
**Great opportunities for growth in Indonesia and the Middle East, where we have the largest market share in the market by expanding sales of wide-neck bottles.**

**1. Expand sales of wide-neck bottles**

Strengthening the brand on the strength of "research" and Continue to create strong reasons for our products to be chosen.

**2. Improvement of WTP\* through value-added increase**

Adding value to the nursing bottles with attractive design and improved usability



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Nursing bottles, one of our core categories, we will expand sales of wide-neck nursing bottles in particular.

As shown in the figure on the right of this slide, we aim to improve profitability by increasing the sales ratio of wide-neck nursing bottles in markets such as the Middle East and Indonesia, where we already have a high market share for nursing bottles, but where profitability is not so high because our main products are standard-neck nursing bottles.

Although wide-neck nursing bottles are our main product in China, we have a market share of about 44%. We aim to further increase our market share to 50% and 60%.

## Product Strategy: Skincare

**Still significant room for expansion of market share in the skincare category worldwide. Each business will develop unique products by taking into account consumers' local needs.**



### Existing areas

Expand market share by strengthening Basic Series



### New areas

Capture new market opportunities through development of new area such as Skincare for Toddlers



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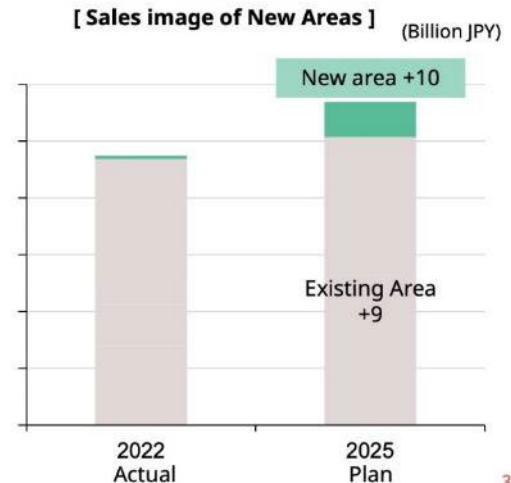
34

In the skincare business, the current market share in Japan is about 30%. In China, our market share is about 10%, and there is room for further business expansion in all markets where we operate, including Japan and China. In the Singapore business, we have launched a new botanical series, and although our market share is still small, we have high expectations for its future potential.

## Product Strategy: Explore and Cultivate New Areas

We will also focus on exploring and nurturing new growth areas where we can leverage our expertise. Aiming for sales in excess of approximately 10 billion yen in new areas by 2025.

In three years Sales growth	New Area +10 billion yen	Existing Area +9 billion yen
Age-up (For toddlers and beyond)	6 billion	Skincare, Oral development support, etc.
Women's Care	1.5 billion	Prenatal and postpartum care Pregnancy care, etc.
Others	2.5 billion	Next-generation healthcare and Lifestyle proposals, etc.



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35

In 2025, the final year of the 8th MTP, we expect consolidated group sales to increase by 19 billion yen compared to 2022. This includes 10 billion yen in new areas and 9 billion yen in existing areas.

Within the new areas, we plan ¥6.0 billion, including “Age-Up (for toddlers and beyond)”, especially skincare and oral development-related products. In addition to kids' skincare products for children aged 3 and older, these “Age-Up” products include, for example, new nursing bottles for older babies in the Chinese market, the launch of which will further increase Pigeon's market share of Nursing bottles.

The “Women's Care” business is currently offered only under the Lansinoh brand, but with a view to offering the product under the Pigeon brand, we plan to grow this business to a scale of 1.5 billion yen for the Group as a whole by the year 2025. In addition, we expect sales of new products in the “Others” category to reach ¥2.5 billion.

## Regional Strategies: Japan Business

### Japan Business 3-year CAGR

Net sales: **+2.0%**

Operating income: **+8.4%**

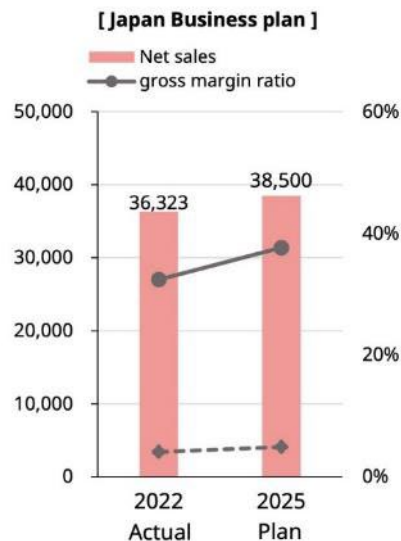
### Priority Strategy (Baby Care)

**1. Improve profitability through price revision and product portfolio review**  
Focus on Bottles and Nipples, Breastfeeding support, and Skincare

**2. Creation of new categories (total sales over 3 years: over 5 billion yen)**  
New areas in baby (Next generation healthcare, age-up, etc.)  
New areas other than baby (e.g., Women's care, Father care, etc.)

**3. Strengthen our own e-commerce platform (Target sales in 2025: 4 times the 2022 level)**  
Positioned our own EC platform as a major channel for new category products

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Unit: Million JPY

37

Next are initiatives by business segment.

In the Japan business, we will work to improve profitability as a key theme, with a sales CAGR of +2.0% and an operating income CAGR of +8.4%.





Here is an image of the new Fuji Plant, scheduled for completion in August 2023. The investment is approximately 6 billion yen.

Not only will the new plant greatly increase our production capacity, but the primary purpose of this plant is to develop products that are uniquely Japanese and uniquely Pigeon. The R&D functions related to skincare will be further strengthened, and we expect to see more great products in the future.

## Regional Strategies: China Business

### China Business 3-year CAGR

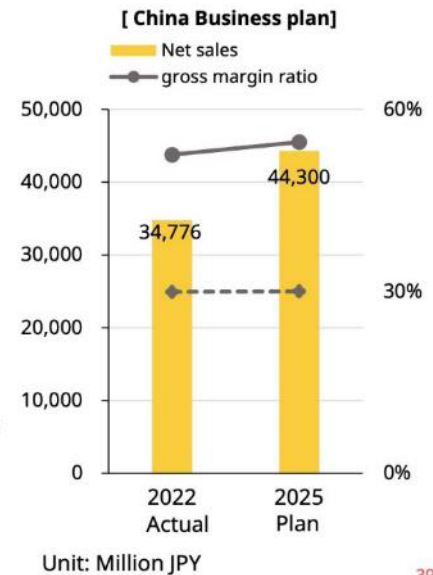
Net sales: **+8.4%**

Operating income: **+8.5%**

#### Priority Strategies

- 1. further enhancement of baby bottle/nipple and baby skin care**  
Expanding products for 12+ months babies to achieve 50% market share of the Nursing bottles.  
Expansion of unique skincare product series following avocado and yuzu
- 2. Creation of new categories**  
Developing new markets such as women's care, fathercare, and age-appropriateness
- 3. Restructuring by reviewing the supply chain**  
Improved profitability of factories and shift to own direct sales system in Korea

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39

China Business. We aim for sales CAGR +8.4% and operating income CAGR +8.5%.

Priority strategies, especially in the supply chain, include improving profitability of factories and reviewing distributors.

As part of this effort, for example, in South Korea, we have started our own direct sales structure from this year. Through this, we plan to greatly improve both sales and profits.

## Regional Strategy: Singapore Business

### Singapore Business 3-year CAGR

Net sales: **+7.9%** (\*3-year CAGR for external sales is +10.0%)

Operating income: **+6.7%**

### Priority Strategies

**1. Accelerate business growth centered on Nursing bottles and Skincare**

Double-digit annual growth targeted for Indonesia, India, and other major countries

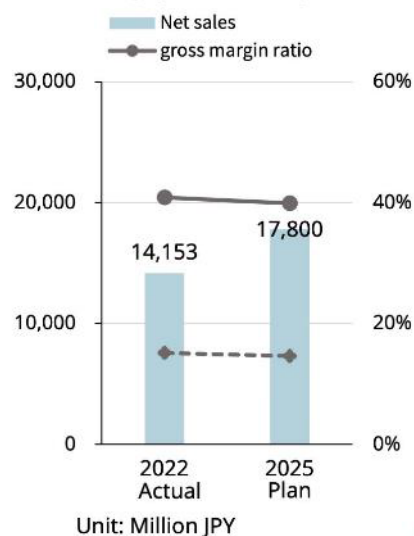
**2. Strengthen manufacturing for upper-middle to premium class**

Strengthen in-house planning and development systems and utilize promising local partners

**3. Business restructuring by reviewing supply chains, etc.**

Review of sales structure in existing markets, restructuring of Thai plants

[ Singapore Business plan ]



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40

The Singapore operation plans a sales CAGR of +7.9% and operating income of CAGR +6.7%. In the markets of each country under the Singapore operation will concentrate on the existing areas of Nursing bottles, nipples, and Baby skincare, and increase the sales mix of wide-neck nursing bottles to grow both sales and profit.

## Regional Strategy: Lansinoh Business

### Lansinoh Business 3-year CAGR

Net sales: **+6.4%**

Operating income: **+6.7%**

#### Priority Strategies

**1. Strengthening and fostering of anesthetics, prenatal and postpartum care**

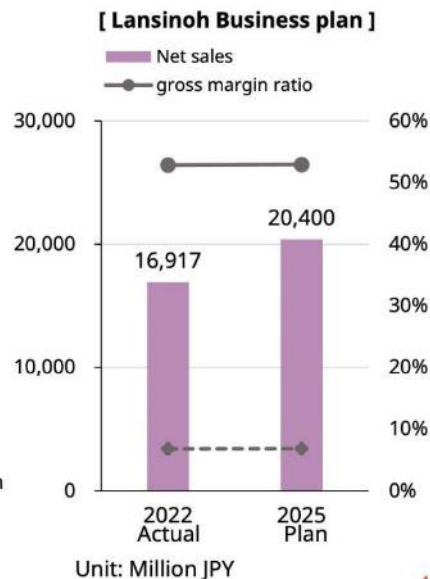
Introduced a new model of breast pump, making prenatal and postpartum care the next growth category

**2. Development of new products and categories utilizing "Bio-design"**

Expansion the brand from "breastfeeding" to "Women's Health"

**3. Business restructuring through review of sales structure, etc.**

Improving the efficiency of European operations, including reviewing the distribution networks



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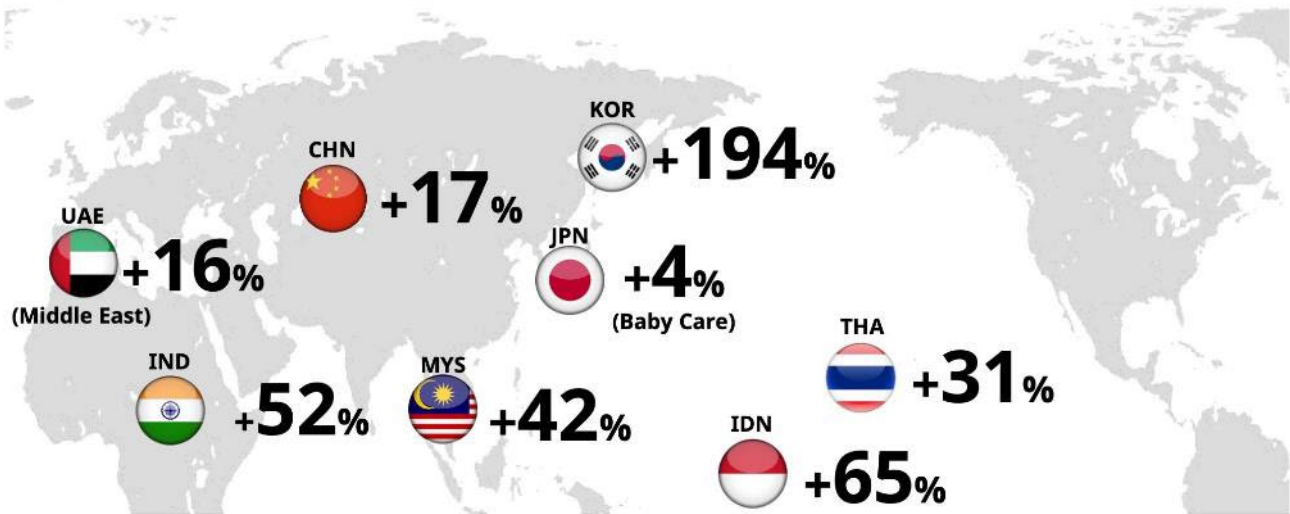
41

Lansinoh's sales continued to grow even with the Covid pandemic, and we are planning a CAGR of +6.4% for sales and +6.7% for operating income in the 8th MTP. This year, we plan to launch a new breast pump. In addition, we will continue to plan and develop various new products through R&D based on bio-design.

## Pigeon: Sales Growth by Area (2022 vs. 2025)



Besides Japan and China, the Middle East and Southeast Asian countries are also expected to grow significantly.



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42

The chart summarizes how much sales in each country will grow in 2025 compared to 2022 as a result of the initiatives in each business.

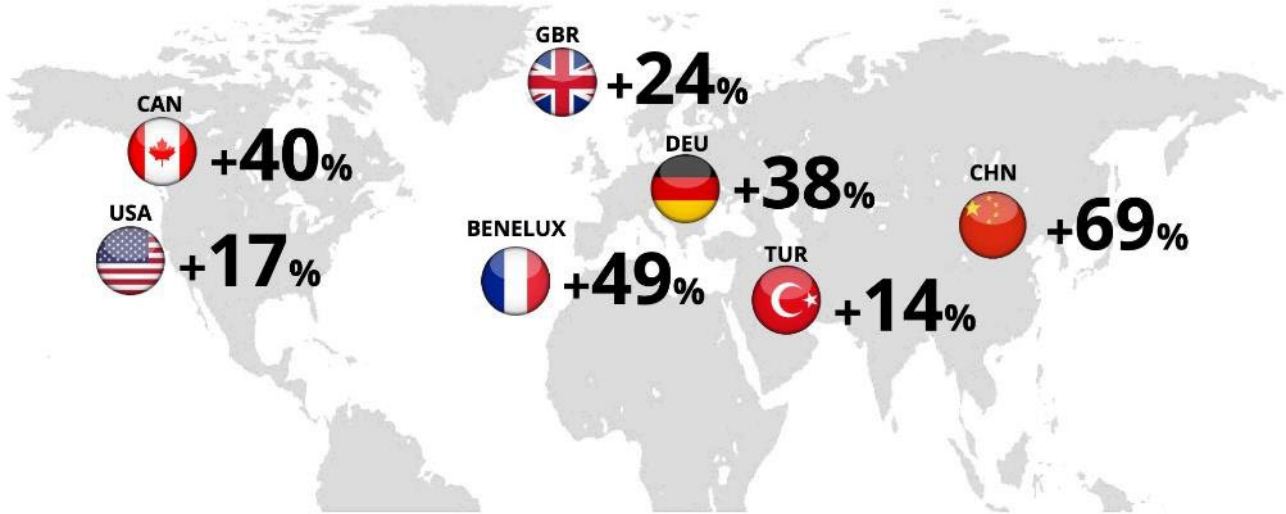
South Korea is particularly significant. The switch to a direct sales structure is expected to lead to a significant increase in sales with growth of +194%.

We also plan significant growth in Southeast Asian markets such as Indonesia, India, and Malaysia.

## Lansinoh Sales Growth by Area (2022 vs. 2025)



In addition to the mainstay U.S. market, impressive sales growth is planned in Europe and China.



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\*Sell-in plan (local currency basis)

43

Here are the growth rates for the Lansinoh brand. The biggest growth over the three years will be in Benelux, mainly in France. Germany also weakened slightly in Yr 2022, but we expect it to pick up again from Yr 2023 onward.

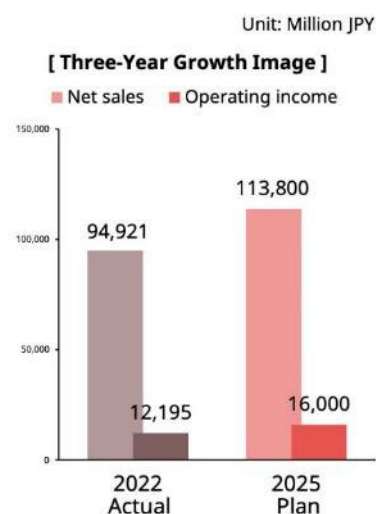


## 8th Mid-Term Management Plan : Financial Targets

Group consolidation  
3-year CAGR

**Net Sales: +6.2%**  
**Operating Income: +9.5%**

Unit: Million JPY	FY Dec. 2022		FY Dec. 2025 (Final year of the 8th MTP)		
	Actual	% of Total	Plan	% of Total	3-year CAGR
<b>Net Sales</b>	94,921	100.0%	113,800	100.0%	6.2%
<b>Cost of Sales</b>	50,087	52.8%	57,300	50.4%	4.6%
<b>Gross Profit</b>	44,834	47.2%	56,500	49.6%	8.0%
<b>SG&amp;A Expenses</b>	32,638	34.4%	40,500	35.6%	7.5%
<b>Operating income</b>	12,195	12.8%	16,000	14.1%	9.5%
<b>Ordinary income</b>	13,465	14.2%	16,000	14.1%	5.9%
<b>Net Income Attributable to Owners of Parent</b>	8,581	9.0%	10,400	9.1%	6.6%



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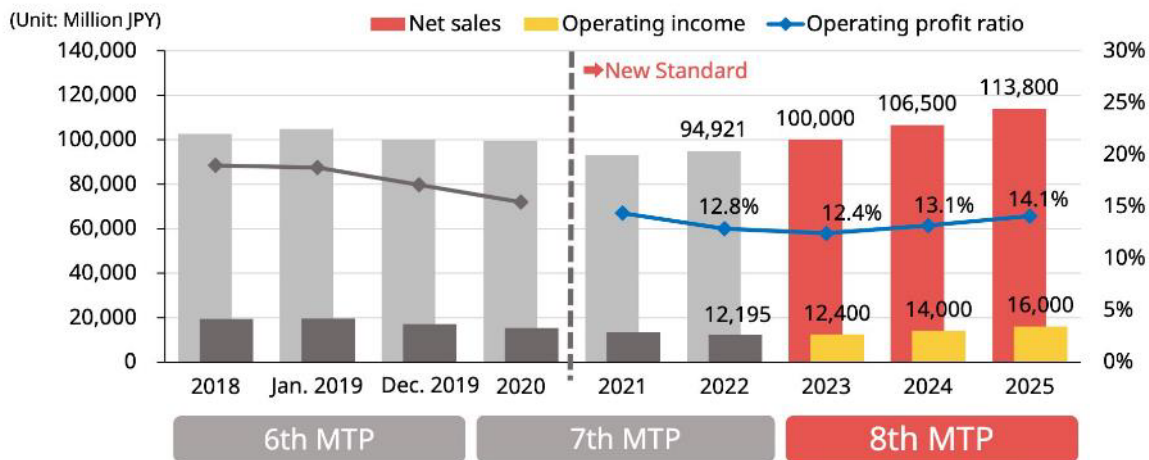
[Currency rates] FY Dec. 2022 Results: US\$1 = JPY 131.55 / CNY 1 = JPY 19.50  
8th Mid-term Plan: US\$1 = JPY 130.00 / CNY 1 = JPY 19.50

45

Here is the plan for the group consolidated. Over the three-year period, the sales CAGR is +6.2% and the operating income CAGR is +9.5%. The operating profit margin of last year was down to 12.8%, but we hope to improve it to over 14% in the fiscal year FY Dec. 2025.

## 8th MTP : Growth Image (Group Consolidated)

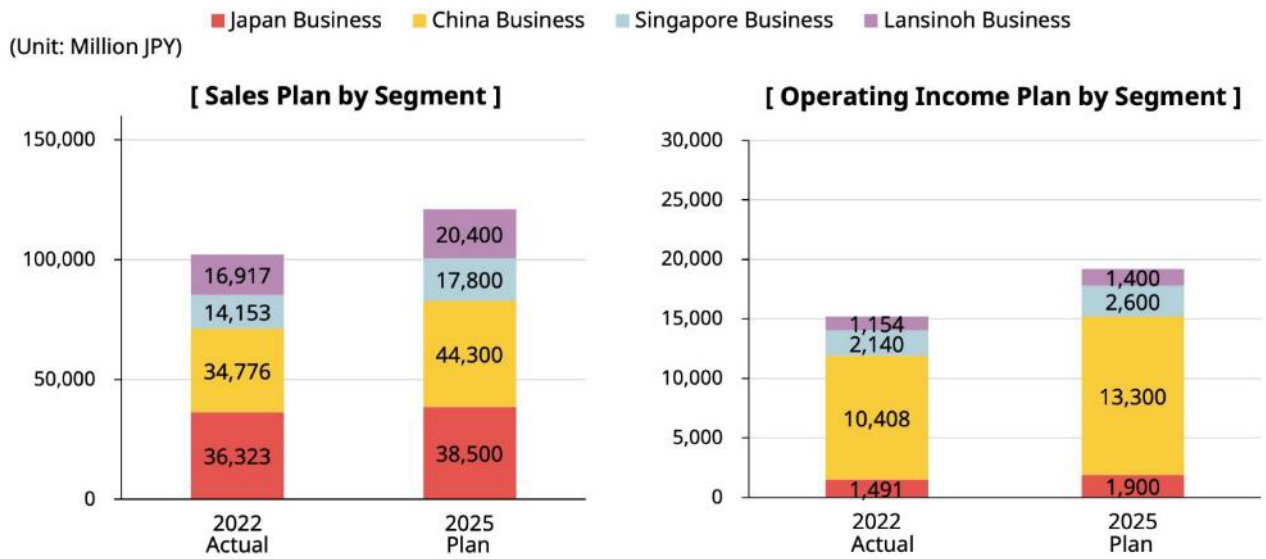
Aim to achieve record-high sales and improve operating margin in the final year of the 8th MTP  
 (\*Revenue recognition standard was changed since FY Dec. 2021)



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Here is an image of the group's growth over the next three years.

## 8th MTP : Growth Image (by Business Segment)



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Note: Elimination of inter-segment transactions are not included.

47

Here is a breakdown by business segment.

## 8th MTP : Capital Policy and Shareholder Returns

### [ Cash flows ]

Increase in operating cash flow (3 years): Approx. 34 billion yen

### [ Investment ]

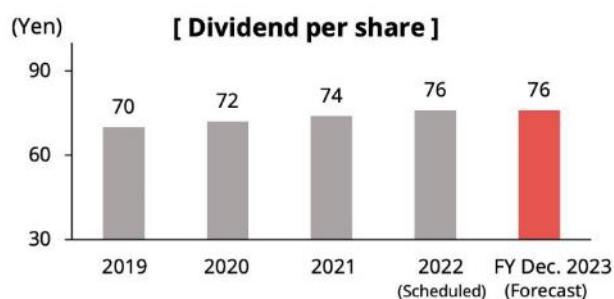
Investment for growth (3 years): Approx. 12 billion yen

### [ KPI targets at final year of the 8th MTP ]

**ROE**      **14.0% or more**  
**ROIC**     **15.0% or more**  
**PVA**      **7 billion yen or more**

### Shareholder Return Policy

Continue stable dividend payments by maintaining current dividend levels along with further improvement in consolidated performance and financial condition.



\*ROE: Calculated with equity being the average of the beginning and ending balances






\*ROIC: NOPAT/Invested capital, calculated with a tax rate of 30.0% and invested capital being the average of the beginning and ending balances

48

As for investments, we plan to invest approximately 12 billion yen over the next three years. As important financial KPIs, we aim to achieve ROE of over 14%, ROIC of over 15%, and PVA of 7 billion yen or more in FY Dec. 2025, the final year of the 8th MTP.

With regard to dividends, we plan not to reduce dividends, but to maintain the dividend amount for the FY Dec 2022, FY Dec 2023 and beyond.

## Final Draft of Key Issues (Materiality) & Individual Issues

5 Key Issues (Materiality)	What We Aim to Achieve	20 Individual issues to be realized				
 <p>1. Enhancing business competitiveness and resilience</p>	Building a resilient distribution systems that can 'create', 'produce' and 'deliver', expand our corporate value over the medium to long term, and become essential to society	Supporting nursing babies	Supporting healthy baby skin development	Creating new businesses	Releasing products that exceed customer expectations	Building resilient distribution systems
 <p>2. Reducing our environmental impact</p>	Implementing the Pigeon Green Action Plan, which aims for decarbonization, circular society and coexistence with nature in order to leave a rich earth for the future of babies born tomorrow	Reducing greenhouse gas emissions (Scope 1, 2 & 3)	Circular manufacturing	Using sustainable resources (paper & palm oil)		
 <p>3. Contributing to the resolution of social issues</p>	Helping to resolve the social issues that affect babies and families	New products and services for babies needing support	Expanding use of products designed for maternity hospitals		Promoting responsible procurement	Participating in and supporting communities
 <p>4. Managing talent and cultivating the right culture for our Purpose</p>	Managing talent and cultivating the right culture in which diverse human resources share the Pigeon Way and Purpose, are proud of the company, organization and their work, are motivated to contribute voluntarily, and continue to take on challenges to be themselves	Working environments that achieve self-fulfillment and growth		Ambitious organizational culture	Enriched investment in human resource development	Promoting Diversity & inclusion
 <p>5. Establishing solid management foundations</p>	Reinforcing the GHO/ASBU structure and Enhancing corporate governance system capable of taking on aggressive challenges in order to increase corporate value over the medium to long term	Reinforcing group governance	Reinforcing compliance	Reinforcing risk management	Dialogue with stakeholders	

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49

These are the key issues (materiality) explained earlier and the individual issues connected to them.



## Pigeon Green Action Plan

Leaving a rich earth for the future of babies born tomorrow



### Decarbonization

2050—Scope 1 & 2 GHG emissions: **Net Zero**

2030—Scope 1 & 2 GHG emissions: **50% reduction** (compared to FY2018)

Scope 3 GHG emissions: Reductions with Science-Based Targets (to be finalized)



### Circular society

2030—Plant-derived or recycled materials in packaging: **50%** by weight

2030—Reusable/recyclable/compostable packaging: **100%**



### Coexistence with nature

2030—Sustainable paper usage rate in packaging: **100%**

2030—RSPO-certified sustainable palm oil usage rate in Pigeon-manufactured skincare/washing/cleaning products: **100%** (including RSPO Credits)

Among our key issues, we have formulated a new Pigeon Green Action Plan for “environmental impact reduction”.

Under “Decarbonization”, the goal is to reduce current Scope 1 and 2 GHG emissions by 50% by 2030, with a target of net-zero emissions by 2050.

Under the “Circular society”, we have set a goal of 50% product packaging made from plant-derived or recycled materials by 2030, and we hope to achieve 100% reusable, recyclable, or compostable product packaging by 2050.

“Coexistence with nature”, our goal is to achieve 100% usage of sustainable paper in our packaging by 2030. We also aim to change all palm oil used in the production of toiletries to RSPO-certified palm oil by 2030.

Here are overview of the 8th Mid-Term Management Plan.



## FY Dec 2023 Business Plan : Consolidated P&L

In FY Dec. 2023 (the first year of the 8th MTP), we strengthen “Monozukuri” and implement key structural reforms in each business segment that will lead to improve profitability in 2024 and beyond

Unit: Million JPY	FY Dec. 2022		FY Dec. 2023 Outlook		
	Actual	% of Total	Forecast	% of Total	YoY Change
<b>Net Sales</b>	94,921	100.0%	100,000	100.0%	105.4%
<b>Cost of Sales</b>	50,087	52.8%	51,800	51.8%	103.4%
<b>Gross Profit</b>	44,834	47.2%	48,200	48.2%	107.5%
<b>SG&amp;A Expenses</b>	32,638	34.4%	35,800	35.8%	109.7%
<b>Operating income</b>	12,195	12.8%	12,400	12.4%	101.7%
<b>Ordinary income</b>	13,465	14.2%	12,400	12.4%	92.1%
<b>Net Income Attributable to Owners of Parent</b>	8,581	9.0%	8,100	8.1%	94.4%

**[Currency rates]** FY Dec. 2022 Results: US\$1 = JPY 131.55 / CNY 1 = JPY 19.50  
 FY Dec. 2023 Budget: US\$1 = JPY 130.00 / CNY 1 = JPY 19.50

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52

Here is the management plan for the fiscal year ended December 2023, the first year of the 8th Mid-Term Management Plan.

We are targeting sales of 100 billion yen, 105.4% yoy, and operating income of 12.4 billion yen, 101.7% yoy.

The reason for the modest growth in operating income is that, along with the recovery from the Covid pandemic, we expect to need to spend a certain amount on activities in 2023, and we are planning many new products in 2023, so we will need to spend a certain amount on marketing to promote these new products to our customers. This is because we expect that we will need to spend a certain amount of money on marketing to promote these new products to our customers.

Since we believe that these activities in 2023 will lead to significant growth in 2024 and 2025, we are planning a high growth rate of profit especially in the second and third years of the 8<sup>th</sup> MTP.

## FY Dec 2023 Business Plan : by Business Segment

Unit: Million JPY	FY Dec. 2022 Actual				FY Dec. 2023 Forecast				
	Net Sales	% of Total	Gross Margin	Segment Profit	Net sales	% of Total	YoY Change	Gross Margin	Segment Profit
<b>Consolidated Net Sales</b>	94,921	100.0%	47.2%	12,195	100,000	100.0%	105.4%	48.2%	12,400
Japan Business	36,323	38.3%	32.4%	1,491	36,800	36.8%	101.3%	33.4%	1,200
China Business	34,776	36.6%	52.5%	10,408	37,700	37.7%	108.4%	54.4%	11,300
Singapore Business	14,153	14.9%	40.9%	2,140	15,400	15.4%	108.8%	40.3%	2,100
Lansinoh Business	16,917	17.8%	52.9%	1,154	18,200	18.2%	107.6%	52.2%	1,300
Elimination of inter-segment transactions	(7,248)	(7.6%)	—	—	(7.3%)	—	—	—	—

### [Reference] Breakdown of Japan Business

Unit: Million JPY	FY Dec. 2022 Actual				FY Dec. 2023 Forecast				
	Net Sales	% of Total	Gross Margin	Segment Profit	Net sales	% of Total	YoY Change	Gross Margin	Segment Profit
Baby care	25,287	—	36.8%	1,787	25,552	—	101.0%	38.5%	1,834
Childcare Services	3,444	—	15.8%	199	3,200	—	92.9%	17.0%	170
Health & Elder Care	5,062	—	30.9%	497	5,269	—	104.1%	29.5%	374

53

Here is the business plan by business segment. In terms of sales, we plan 101.3% yoy for the Japan business, 108.4% for the China business, 108.8% for the Singapore business, and 107.6% for the Lansinoh business. For the breakdown of the Japan business, please see the details at the bottom of the slide.

## FY Dec 2023 : Shareholder Returns and Investment

Dividends	Dec. 2021		Dec. 2022		Dec. 2023	
	Interim (Actual)	Year-end (Actual)	Interim (Actual)	Year-end (Scheduled)	Interim (Forecast)	Year-end (Forecast)
Dividend per Share (yen)	37	37	38	38	38	38
Dividend payout ratio	100.9%		106.1%		112.4%	

<Ref.> Investment-related Indicators (Consolidated)	Dec. 2021		Dec. 2022		Dec. 2023
	Interim (Actual)	Year-end (Actual)	Interim (Actual)	Year-end (Actual)	Full-year (Forecast)
Capex (*1)	2,013	6,735	2,814	7,259	5,600
Depreciation (*2)	1,986	4,161	2,381	4,947	5,100
R&D Expenses (*3)	1,709	3,603	1,802	3,792	4,800 (*4)

\*1: Property, plant and equipment and intangible assets (including long-term prepaid expense)  
 \*2: Depreciation (including amortization of goodwill)

\*3: Total expenses of R&D activities, including personnel costs  
 \*4: Monozukuri expense is planned for FY Dec., 2023

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54

Shareholder returns and investments. In terms of shareholder returns, our first priority is to pay stable dividends, and we have set the interim and year-end dividend per share for FY 2023 at 38 yen per share, the same amount as FY 2022. We will actively consider increasing the dividend if business performance improves more than expected, such as if business results exceed our target significantly.

On January 31, I visited China for a business trip for the first time in three years. Shanghai was full of vitality after the Covid. Our employees were very energetic.

The number of electric vehicles in the city was increasing. In proportion to this, charging stations are being installed one after another in the city, and I felt that China is still a speedy market compared to Japan.

As for our new products, I believe that we will be able to launch more than 100 SKUs of new products in China this year.

That is all I have to say on the matter. Thank you very much.

## Q & A

Q&As are summarized by Business segment.

### ● Financial results for the FY December 2022

[Group Consolidated]

**Q. How much of an impact of FX on profits in the Q4 YTD?**

A. In the group consolidated results, there was a 1.7 billion yen positive impact on ordinary income compared to the previous year's exchange rate. There was a 0.6 billion yen positive impact on ordinary income compared to the planned exchange rate.

[China Business]

**Q. How was the sell-ins and sell-outs in mainland China in the Q4 alone?**

A. Mainland China sell-ins and sell-outs in the Q4 alone ended -17% and -12%, respectively yoy. The market was severely disrupted in Q4 by the re-expansion of Covid infections due to the termination of the zero-Covid policy in mainland China, which is expected to have affected both sell-in and sell-out.

### ● 8th Mid-Term Management Plan

[Group Consolidated]

**Q. How do you plan to change the sales composition of core products (Nursing bottles, Nipples, and Baby skincare, etc.) in each business segment during the 8th MTP period?**

A. In Japan (Baby Care), the sales composition of Nursing bottles and nipples will be about 16% in Yr 2022. In Japan, the market share of Nursing bottle is very high and is easily affected by the decline in the number of births, so the sales composition ratio is expected to be less

than 14% in Yr 2025. On the other hand, sales of Baby skincare, which accounted for about 17% of the total sales in Yr 2022, are expected to exceed 20% in Yr 2025.

In mainland China, sales of Nursing bottles and nipples accounted for 50% of total sales in 2022, while skincare accounted for about 28%. In 2025, sales of Nursing bottles and nipples, which will be affected by the decline in the number of births, are expected to maintain 50% of total sales, while sales of Baby skincare are expected to exceed 30%.

Although it is difficult to provide specific figures for the Singapore business due to the multiple countries in which it operates, we intend to further increase the ratio of Nursing bottles and nipples, which account for about half of the external sales of the Singapore business. We aim to achieve double-digit growth in sales of Nursing bottles and nipples every year. In addition, the composition of Baby skincare is currently very low, but we will grow it at a high sales growth rate as well as Nursing bottles by nurturing new products and other measures.

In the Lansinoh business, Nipple care cream, Nursing pads, and Breast pumps are the core products, and the composition of these products is expected to further increase. In particular, nipple care cream is expected to continue to grow at a solid sales CAGR of +6-7% during the 8<sup>th</sup> MTP.

**Q. In the final year of the 8<sup>th</sup> MTP (Yr 2025), the company plans to exceed 10 billion yen sales in “New Areas”. How much margin are you expecting to “New Areas” and expecting any changes of margin of existing products?**

A. In new business areas, we will focus on product development, etc., with particular attention to profitability, so we expect higher profit margins than for existing products. In addition, for existing products, for example, we will consider whether to continue or terminate sales of products with low profitability in the Japanese market. By aggressively restructuring its product portfolio, both existing and new, we hope to further increase profitability as a group.

**Q. What are the main reasons for the increase in SG&A expenses during the 8<sup>th</sup> MTP?**

A. SG&A expenses in Yr 2025 are planned to increase by 8 billion yen from the 2022. The breakdown of this increase is: approximately 4 billion yen for marketing and sales related

expenses, 2 billion yen for “*Monozukuri*” expenses, and 2 billion yen for other expenses such as personnel costs and amortization. “*Monozukuri*” costs will be used to strengthen product development tailored to the characteristics of each country's market, and marketing costs will be used to ensure that these new products are sold well.

**Q. Regarding the 12 billion yen invested during the 8th MTP, it appears to have been reduced compared to the previous MTP.**

A. During the 7<sup>th</sup> MTP, several large investment projects worth several billion yen were completed, including the construction of the Fuji plant in Japan and additional buildings at the plant in China, and some of these projects are still in progress in 2023, but we plan to complete all large-scale investments during the previous medium-term management plan period. Therefore, the amount of investment in the 8th MTP is not as large as in the previous MTP, but the company plans to continue to make necessary investments as needed during the period of this MTP.

**Q. What is your dividend policy for the 8th medium-term management plan period?**

A. The shareholder return policy of the 8th MTP is to “maintain stable dividends”. During the previous medium-term plan, we committed to a total return ratio of at least 55% and annual dividend increases, and have steadily implemented this policy. On the other hand, we believe that the situation should be improved, where the dividend payout ratio has been above 100% in recent years due to a temporary decline in business performance caused by the impact of the global Covid pandemic.

After considering shareholder value, we plan to maintain the dividend at the same level as the previous year in the FY Dec 2023 plan, and the payout ratio is expected to be 112%. In the second and third year of the 8th MTP, the dividend payout ratio is expected to fall below 100% as the company's performance improves.



## [Japan Business]

### **Q. How much inbound demand do you expect during the 8th MTP?**

A. Inbound demand is planned at zero. The current sales data do not show any particular figures that would indicate a revival of inbound demand.

### **Q. How do you plan to grow the skincare category during the 8th MTP, given the downward trend in demand for Momo-no-ha Lotion (Peach leaves series), which has had particularly strong inbound sales in the past?**

A. Regarding Momo-no-ha lotion, we believe that inbound demand completely disappeared during the previous MTP period, and we have not factored in a recovery of inbound demand during the 8th MTP.

During the 8th MTP, we plan to develop and launch new skincare products, mainly at the newly built Fuji Plant, to replace Momo-no-ha Lotion, for which demand has settled down. Our market share of skincare products in Japan is still only about 30%, which offers significant growth opportunities compared to Nursing bottles, we believe that it can further expand its business in Japan through the launch of products for toddlers and beyond.

### **Q. Even in the final year of the 8th MTP, the operating profit margin of the Japan business appears to be less than 5%, which is not a recovery compared to the pre-Covid period.**

A. We recognize that the biggest challenge for the Japan business in the 8th MTP is “improving profitability”. As an example, we believe that we can contribute to improving profitability by launching high value-added and profitable products in the “New Areas”. In addition, in the baby care business, we have been implementing price revisions for many product lines, including Nursing bottles since the beginning of February 2023 to partially cover the rising cost of raw materials. While taking into account strategic SG&A investments, such as *Monozukuri* costs, we intend to respond to the improvement in profitability with speed.

## [China Business]

**Q. Do you see any signs of positive changes in China's macro environment (such as a recovery in the number of births and an increase in the marriage rate) during the 8th MTP?**

A. The Chinese market has changed dramatically with the Covid pandemic, and trends in the number of births and marriage rates have become extremely difficult to predict. However, although the number of births has been declining in recent years, we recognize that the Chinese market, with nearly 10 million births, is still the largest market in the world. In the 8th MTP, we will once again aim to increase the attractiveness of our products in the Chinese market, expand our market share, and achieve further growth in business performance.

**Q. What are the assumptions for the number of births in mainland China during the 8th MTP?**

A. We expect the number of births to continue to decline after 2023, given the declining number of people of marriageable age and the declining proportion of the population who wish to get married. We assume number of birth in Yr 2025 will be around 8.7Million, decrease by 18% compared with Yr 2021.

**Q. Of the +8.4% sales CAGR for the China business, what is the planned sales CAGR in mainland China in local currency terms?**

A. We plan a sales CAGR of about +5% in mainland China on a local currency basis.

**Q. Why has the operating margin for the China business remained flat in 8<sup>th</sup> MTP?**

A. In mainland China, EC sales accounted for 70% of total sales in Ye 2022, and as the presence of EC channels continues to grow. In order for us to achieve stable growth, we need to invest not only in existing major EC channels, but also in emerging EC channels such as Tiktok, which targets younger customers, and Pinduoduo, which is strong in rural areas. Due to the impact of these investments, we plan for the operating margin to remain flat. Nevertheless, the company

plans to maintain high profitability in its China business, with an operating margin of 30% in the final year of the 8<sup>th</sup> MTP.

**Q. Do you have a target of market share for Nursing bottles in mainland China in Yr 2025?**

A. We have set a goal of achieving a 50% market share of the Nursing bottle and nipple by the end of Yr 2025. However we planned to achieve 50% market share in the previous MTP, the launch of new products was delayed due to the Covid pandemic and we were unable to conduct business activities as expected.

With the number of births in China declining significantly over the past two to three years due to the Covid pandemic, it will not be easy to achieve a 50% market share, but our future direction is to continue to expand our market share by developing new products that will enable our Nursing bottles to be used not only in the segment of “newborns to 6-month-old babies,” where our nursing bottles are particularly strong, but also in “6-month-old and older babies” who are starting to eat baby food and other food products.

[Singapore Business]

**Q. Which markets are the most important for your Singapore business?**

A. As shown in the three-year sales growth rate of each country on a local currency basis (see page 42 of the presentation), we plan to grow particularly in Indonesia, followed by India, Malaysia, and the Middle East. In Indonesia, we plan to accelerate growth by promoting wide-neck nursing bottles, and in India, by promoting local procurement of products such as stainless steel nursing bottles (see page 32 of the presentation) and other products that meet local consumer needs.

**Q. The operating margin for the Singapore business in Yr 2025 appears to be lower than in Yr 2022.**

A. The impact of the decline in profits of the two Thai factories is significant. Shipments of nursing bottles to Japan and South Korea, the main customers of the Thailand factories, are

expected to remain sluggish during the 8th MTP period due to a decline in the number of births in both countries. The resulting decline in earnings at the two Thai plants is a factor in the decline in profits for the Singapore business.

In the 8th MTP, each sales company in the Singapore business will spend a certain amount of marketing expenses, focusing more on aggressive sales growth (CAGR +10%) than on improving operating profit margins. Over the three-year period, we plan to increase the amount of operating income from external sales at a nearly double-digit growth rate.

### [Lansinoh Business]

**Q. The sales CAGR +6% over seems conservative.**

A. Lansinoh's sales grew steadily during the previous MTP despite of Covid pandemic. In 2022, we significantly increased sales thanks to special demand for breastfeeding products due to the shortage of formula milk supply in the U.S. However, we expect special demand to slow down in 2023 and beyond. In addition, during the 8th MTP, Lansinoh is planning to take into account to some extent the uncertain risks in Europe and the United States, where Lansinoh mainly operates, such as the economic recession in the U.S. and the situation in Ukraine.

**Q. The operating profit margin appears to remain flat in the Yr 2025.**

A. Lansinoh plans to sell several key new products in the 8th MTP, and the operating income margin is expected to remain flat due to the cost of developing these products, communication expenses to promote the new products, and marketing expenses to ensure sales growth of these new products. By further enhancing new breast pumps and new prenatal and postpartum care products during the 8th MTP, we believe that we will be able to change our business model to one that will enable more sustainable growth.

## ● Outlook for the FY Dec 2023

### Q. Can you tell us what the company is seeing in Costs and Expenses in Yr 2023 Forecast?

A. We expect raw material prices to remain high in the first half, and assume that the same situation will continue through the second half. However, for example, in the Baby care business in Japan, prices of many product lines, including Nursing bottles have been revised since February 2023 to cover part of the raw material price hikes. In SG&A expenses, *Monozukuri*, as well as labor and other expenses are expected to increase to some extent. Nevertheless, we plan to spend the necessary funds in 2023 to “sow seeds of growth” with a view to growth in 2024 and beyond.

[END]