Lion Corporation

Financial Results for the First Half Ended June 30, 2019

August 6, 2019

Event Summary

[Company Name]	Lion Corporation
[Event Type]	Financial Announcement
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[Fiscal Period]	FY2019 Q2
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[Venue]	Sapia Tower, 4F 1-7-12 Marunouchi, Chiyoda-ku, Tokyo, 100-0005
[Venue Size]	310 m^2
[Participants]	88
[Number of Speakers]	5

Masazumi Kikukawa	Representative Director, President and Executive Officer, Chief Operating Officer
Takeo Sakakibara	Director, Senior Executive Officer
Kei Minamikawa	Director of Corporate Planning Department
Akihiko Takeo	Director of Finance Department
Masaaki Ise	Director of Investor Relations Office, Corporate Planning Department

[Respondent] Masazumi Kikukawa, Takeo Sakakibara

Presentation

Ise: I would like to thank you for attending our financial results briefing.

We will hold a briefing on the financial results for the Lion Corporation for the first half of the 159th term. We disclosed our financial statements on the Tokyo Stock Exchange at 3:00pm today.

I would like to introduce our participants today.

Masazumi Kikukawa, Representative Director, President and Chief Executive Officer
Mr. Takeo Sakakibara, Director and Senior Executive Officer.
Kei Minamikawa, Director of the Corporate Planning Department.
Akihiko Takeo, Director of Accounting Department.

Ise from the IR Office of the Corporate Planning Department, will be the moderator today.

We would like to ask for your questions after our presentation.

President Kikukawa, please go ahead.

Kikukawa: Thank you very much for attending our first half financial results meeting today.

Financial Results for the First Half Ended June 30, 2019

(Billions of yen)	Jan.–Jun. 2019	Jan.–Jun. 2018	Y-o-Y change		Deviation from forecast
			Amount	%	
Net sales	167.3	168.4	(1.1)	(0.7)	(4.6) (2.7%)
Core operating income % of net sales	12.4 7.4	12.5 7.5	(0.0)	(0.7)	(0.5) (4.2%)
Operating profit % of net sales	12.8 7.7	17.8 10.6	(4.9)	(27.9)	0.3 3.1%
Profit for the period attributable to owners of parent	8.6	13.9	(5.2)	(37.6)	0.1 2.2%
EPS (Yen)	29.89	47.95	(18.06)	(37.7)	0.65 2.2%

* Core operating income is an earnings indicator the Company uses to measure regular business performance by subtracting selling, general and administrative expenses from gross profit.

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3

Today, I would first like to present the business results for the first half, and then I would like to explain the initiatives for the second half.

These are the consolidated results for the second quarter. Net sales decreased 0.7%, or 1.1 billion yen, to 167.3 billion yen.

Excluding the impact of the Malaysian detergent raw material manufacturing subsidiary that was excluded from the scope of consolidation and the impact of the transfer of the insecticide business in the previous fiscal year, net sales grew 0.7%.

Core operating income was about the same level as the previous year, at 12.4 billion yen. Operating profit decreased 27.9% year on year, as a reaction to the recording of approximately 5 billion yen in gain on sales of non-current assets in the previous fiscal year.

Operating profit and profit for the period attributable to owners of parent exceeded prior announcements, although the Company did not achieve its targets for net sales and core operating income.

Year-on-Year Changes in Core Operating Income

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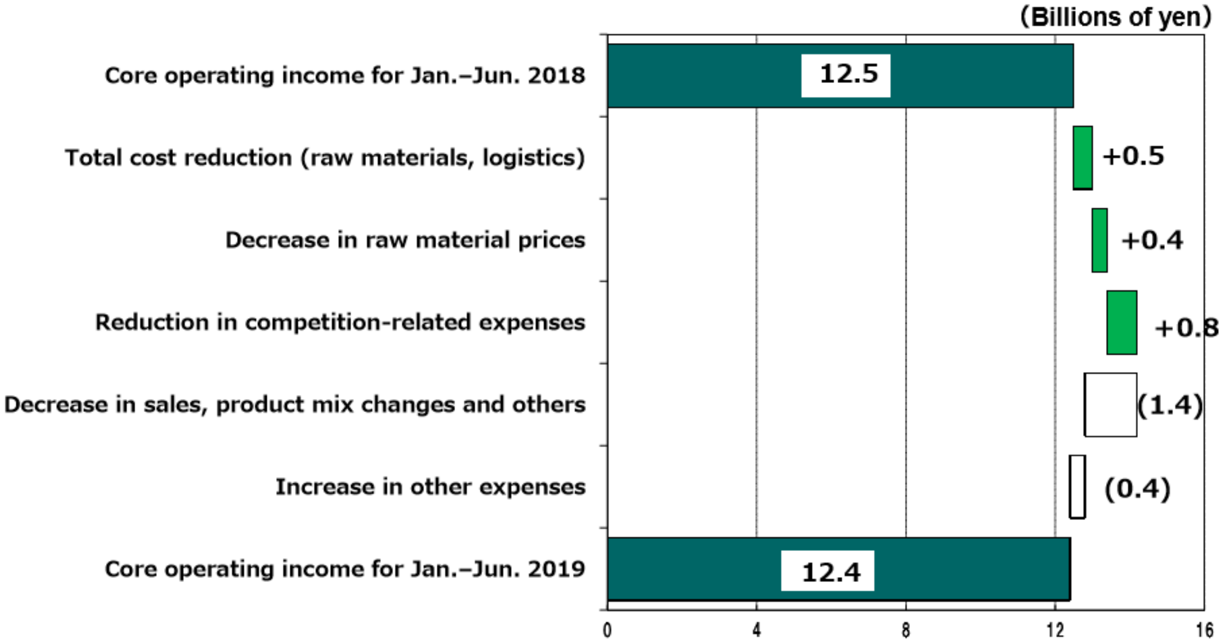

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This is a breakdown of factors affecting core operating income compared to the previous year. Total cost reductions and a decline in raw material prices have been positive factors in this fiscal year.

The impact of product mix changes and a decline in sales was the largest factor behind the decline in profits. A decline in gross profit and change in composition had a small effect. However, an increase in depreciation expenses due to an increase in production capacity centered on oral care was a significant factor that pushed down profits. As a result, operating profit declined approximately 90 million yen year-on-year, compared with the previous fiscal year.

Results by Business Segment

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(Billions of yen)	Net sales*				Segment profit (Core operating income)		
	Jan.–Jun. 2019	Jan.–Jun. 2018	Y-o-Y change Amount	Y-o-Y change %	Jan.–Jun. 2019	Y-o-Y change Amount	Y-o-Y change %
Consumer Products	110.2	110.8	(0.5)	(0.5)	7.7	(0.2)	(3.6)
	102.8	102.6	0.2	0.2			
Industrial Products	27.0	28.3	(1.3)	(4.6)	0.7	(0.5)	(42.4)
	16.0	16.1	(0.1)	(0.8)			
Overseas	51.4	52.2	(0.7)	(1.4)	3.6	0.7	26.9
	46.7	46.9	(0.2)	(0.6)			
Other	15.5	15.4	0.1	0.9	0.5	(0.0)	(10.8)
	1.6	2.6	(1.0)	(38.3)			
Adjustment	(36.9)	(38.2)	1.2	-	(0.3)	0.0	-
	0.0	(0.0)	0.0	-			
Consolidated Total	167.3	168.4	(1.1)	(0.7)	12.4	(0.0)	(0.7)

* Upper lines: net sales; lower lines: sales to external customers

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This section reviews business results by segment. In Consumer Products, net sales declined 0.5% year on year. Excluding the impact of the transfer of the insecticide business, total sales increased 1.8% and external sales increased 1.3%.

Segment profit in that area decreased by 3.6% due to the aforementioned increase in depreciation expenses.

In the Industrial Products business, net sales decreased 4.6% year on year due to sluggish sales of conducting resins in the electrical and electronic field and other products affected by trade conflicts between the US and China. Profits of Lion Specialty Chemicals, a chemical-related subsidiary that handles such resins, declined due in part to a decline in gross profit resulting from lower sales and an increase in depreciation expenses associated with the start of operations of the core system, and segment profit declined 42.4% year on year.

As for Overseas, net sales declined 1.4% year on year, and net sales excluding the influence of exchange rate conversions, declined 0.7% year on year. Excluding the impact of Lion Eco-Chemicals (Malaysia) from the scope of consolidation in the previous fiscal year, as I mentioned earlier, net sales increased by 2.4% and external sales by 2%.

As a result of ongoing cost reductions in the detergent sector in Malaysia and Thailand, and structure reforms aimed at securing profits while shifting to growth in China, segment profit increased by 26.9% year on year

Consumer Products Business Net Sales by Product Category

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(Billions of yen)	Net sales			
	Jan. –Jun. 2019	Jan–Jun. 2018	Y-o-Y change	
			Amount	%
Oral Care	29.8	27.6	2.2	8.0
Beauty Care	11.0	10.1	0.8	8.4
Fabric Care	28.6	28.9	(0.2)	(1.0)
Living Care	9.0	7.8	1.2	15.8
Pharmaceutical	12.0	14.1	(2.0)	(14.7)
Other	19.6	22.1	(2.4)	(11.2)
Total	110.2	110.8	(0.5)	(0.5)

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Here is a breakdown of sales in the Consumer Products Business by product category for the first half. In the three categories of Oral Care, Beauty Care, and Living Care, sales continued to be strong from the first quarter, resulting in an increase in sales.

On the other hand, sales in the Fabric Care and Pharmaceutical declined, as we will explain in more detail later.

In other areas, intra-segment sales in the Group decreased due to the transfer of the insecticide business. In the mail-order business, sales of Lactoferrin declined mainly due to the contraction of the functional foods market and intensified competition.

Performance in Key Fields

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Oral Care Field

- Unit prices up in the cavity prevention toothpaste category
- Ongoing sales growth in mid-range and high-end toothpastes and dental rinses

Beauty Care Field

- Double-digit sales growth in hand soaps and body soaps

Living Care Field

- Double-digit sales growth in household cleaners

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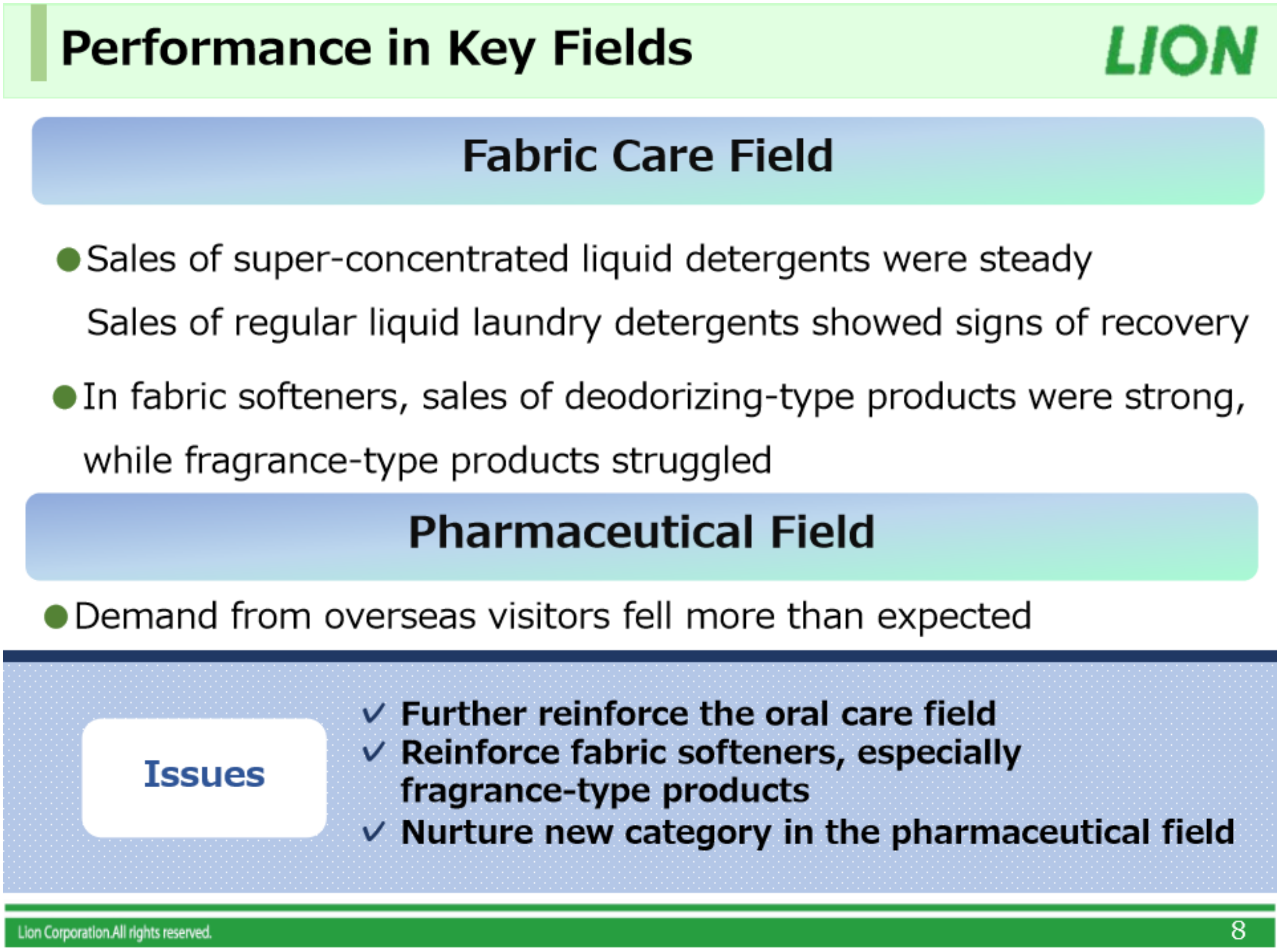
I would like to add an explanation of the Key Fields. Firstly, the three fields of Oral Care, Beauty Care, and Living Care in Japan continued to perform favorably. In the Oral Care field, we launched CLINICA ADVANTAGE NEXT STAGE, a cavity prevention toothpaste, in the first quarter. Due to the launch of this product, the cavity prevention toothpaste category achieved a 4% increase in unit prices compared to the same period last year (from March to June).

Outside the area of toothpaste, sales of NONIO mouthwash products continued to grow.

In the Beauty Care field, Kirei (hand soap) and hadakara (body wash) were strong, with increases in sales for both products in double digits.

In the Living Care field, sales in the residential detergent category grew by double digits, driven by strong new products such as LOOK Plus Bath Cleansing and LOOK Plus Bath Antimold Fogger.



On the other hand, the Fabric Care field, which had been struggling in the first quarter, began to recover in the second quarter. Our laundry detergent struggled in April due to the impact of major new products from competitors, however, sales have seen a significant recovery since May.

As for fabric softeners, sales in the second quarter recovered more significantly than in the first quarter, and sales grew steadily until they exceeded the previous year's level.

On the other hand, in the Pharmaceuticals field, the results were attributable to a greater-than-anticipated decrease in sales of overseas visitors in Japan, in particular due to the newly enacted EC Law in China.

Overseas Business Net Sales by Region

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(Billions of yen)	Net sales			
	Jan.–Jun. 2019	Jan.–Jun. 2018	Y-o-Y change	
			Amount	%
Southeast Asia	34.5	35.4	(0.8)	(2.4)
Northeast Asia	16.9	16.7	0.1	0.8
Total	51.4	52.2	(0.7)	(1.4)

*A detergent ingredient manufacturing affiliate in Southeast Asia has been excluded from the scope of consolidation from the end of May 2018.

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This is a list of overseas sales by region. Sales in Southeast Asia declined 2.4%, and excluding the impact of the exclusion of Lion Eco-Chemicals (Malaysia) from the scope of consolidation in the previous fiscal year, net sales in this region increased 3.1% year on year.

In Northeast Asia, we achieved continuous double-digit growth in China, where we promoted profit structure reform last year, however sales in South Korea slightly struggled. Overall sales of the region were up 0.8% year on year.

Summarizing, our overseas operations have continued to grow steadily in Thailand, Malaysia and other parts of Southeast Asia but not as expected for we focused on profitability amid softening prices for laundry detergents.

In Northeast Asia, we have completed the structural reform in China, and sought to achieve profitable growth.

The percentage of Personal Care Products, which include Oral Care, Beauty Care, and Pharmaceuticals products, rose 1.3 points year on year in Overseas Business as a whole. I believe that our efforts to improve the balance of our overall business portfolio are beginning to produce results.

We are also making steady progress in our Preventive Dentistry activities.

Cost reductions continued in Thailand and Malaysia, including a change in the composition of laundry detergents. As a result of these measures, segment profit in the overseas business significantly exceeded the previous year's level.

Changes in Home Products and OTC Drug Markets LION

Market Environment for Home Products (38 markets, SRI*)

Overall market trend for the 38 home product markets in which Lion participates
(Values are percentages of the results of the corresponding periods of the previous years)

	2016	2017	2018	Jan.–Jun. 2019
Sales value	104	99	102	103
Unit sales	102	98	100	101
Average unit price	102	102	102	102

Source: INTAGE Inc. SRI Survey (data for 2017 are for 37 such markets in which Lion operates)

Market Environment for OTC Drug Market (7 markets, SDI)

Overall market trends in the two drug markets in which Lion participates
(Values are percentages of the results of the corresponding periods of the previous years)

	2016	2017	2018	Jan.–Jun. 2019
Sales value	104	103	102	100
Unit sales	102	101	101	99
Average unit price	101	102	101	100

Source: INTAGE Inc. SDI Survey (2016-2018, 8 markets)
* Panel data changed from January 2019. Data for 2016 onward has been updated accordingly.

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From here, I would like to explain our initiatives for the second half of the fiscal year.

Looking back at the overall market conditions from January to June, although there are some fluctuations in the number of units sold, I do not believe that there is a significant change from the previous year, as unit prices have continued to rise in all markets.

Against this backdrop, we believe that the key points for the second half of the fiscal year will be largely divided into the following three areas: continuation of a shift to high-value-added products; addressing the consumption tax hike; and strengthening of growth in overseas businesses. Explanations are added for each.

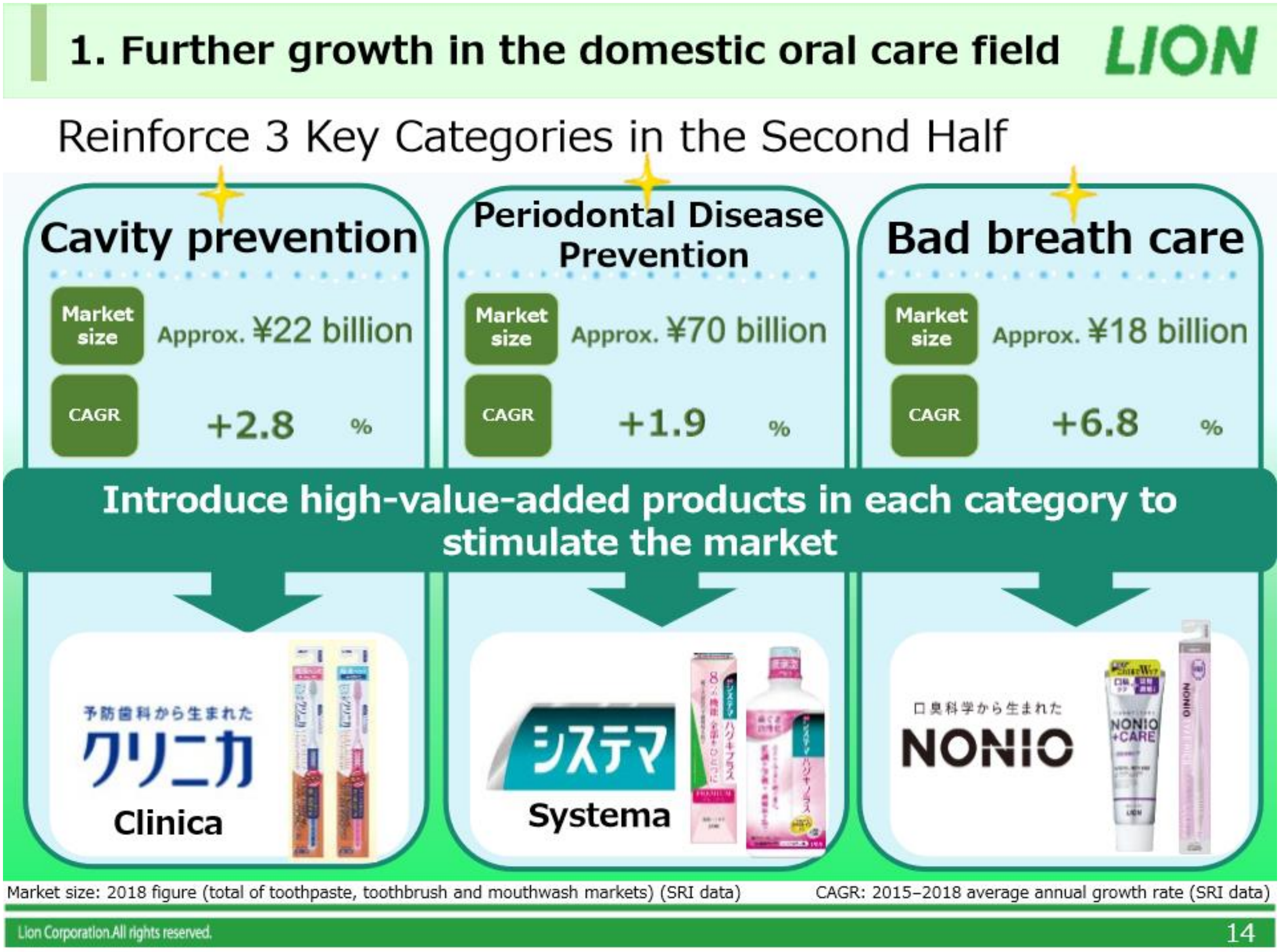
To continue our shift to high-value-added products, we will further expand the well-performing Oral Care field and the Beauty Care field. In the field of Pharmaceuticals, which struggled somewhat in the first half of the fiscal year, in addition to introducing and developing dermatologic agents, we will also take new measures to address the slump in the inbound demand (sales from overseas visitors and social buyers).

In the Fabric Care field, which has finally shown signs of recovery, we are committed to securing this recovery trend by actively introducing new products, which we will explain later.

With regard to the measures to cope with the consumption tax hike scheduled for October, we will maximize the front-loaded increase in demand and take steps to curb the subsequent recoil. We will work to take products measures at the right timing.

In our Overseas Business, we will prioritize further growth in China, while maintaining the growth track in Thailand.

With regard to South Korea, we assume that the situation will change in the second half of the fiscal year due to the Japan-Korea political situation, thus we will continue to pay attention to developments in this area.



In the Oral Care field, where sales continue to grow strong, we will actively introduce new products in the three categories of cavity prevention, periodontal disease prevention, and bad breath care in the second half of the fiscal year, and will continue to expand high value-added products.

In the cavity prevention category, CLINICA ADVANTAGE NEXT STAGE toothpaste was launched in the first half of the year. We will be launching toothbrushes of the same brand in the second half of the year, with an aim to further raise unit prices.

Periodontal disease prevention is the largest category. We aim to further expand our high value added products. In the second half of the fiscal year, we will introduce premium toothpaste and dental rinse in the Systema Haguki (the Gums) Plus series to drive the market.

We have been revitalizing the market for bad breath care for the past two years by launching our NONIO brand products. In the second half, we will introduce new NONIO sensitive care toothpaste, which combines care for sensitive teeth and bad breath care. With this product, we aim to realize unit price increases while responding to the needs of young people.

2. Introduce and nurture dermatologic agents to reinforce pharmaceutical field

LION

Establish third pillar in addition to antipyretic analgesics and eye drops

	Market size (2018)
Antipyretic analgesics 	Approx. ¥60 billion
Eye drops 	Approx. ¥80 billion
Dermatologic agents 	Approx. ¥100 billion

(Lion internal research)

Acquired the *FERZEA* and *Encron* dermatologic agent brands from Shiseido Pharmaceuticals

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In the field of Pharmaceuticals, we will introduce and develop new brands of dermatologic agents. We aim to grow the dermatologic agents, the largest market of the listed 3 categories, as our third pillar in the Pharmaceutical field, in addition to antipyretic analgesics and eye drops.

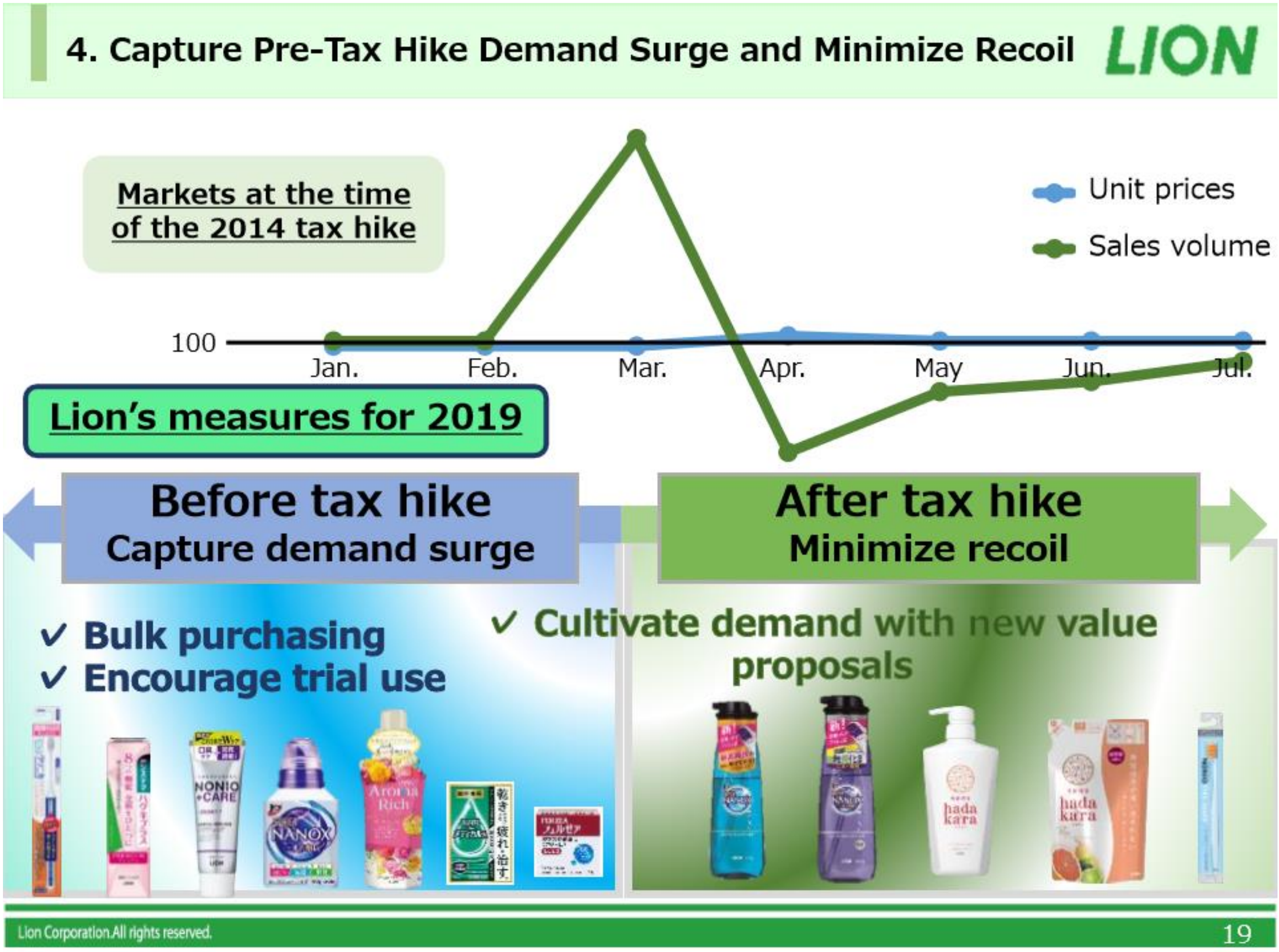
We expect this market to be worth approximately 100 billion yen, but the market in this field is divided into subcategories according to the type of symptoms. In addition to the acne care market, which includes our PAIR brand, we will expand our product line up in new market categories to respond to a wide range of customer needs, such as dryness and itching care. We will expand our presence in the retail space, and lead to sales growth

In the second half of the fiscal year, we will strengthen our presence in these fields by leveraging the FERZEA and Encron brands, which we acquired from Shiseido Pharmaceutical Co., Ltd.

In the Fabric Care field, amid a recovery trend, we will aggressively launch new products to further solidify this trend. At the end of last month, we launched TOP SUPER NANOX for Odors. The latest feedback has been extremely favorable.

In November, we plan to introduce push-pump TOP SUPER NANOX bottles to make laundry activities more convenient for customers. We announced the launch of the product at 3:00pm today. We would like to introduce these products under both TOP SUPER NANOX and TOP SUPER NANOX for Odors to further strengthen our recovery in the Fabric Care field.

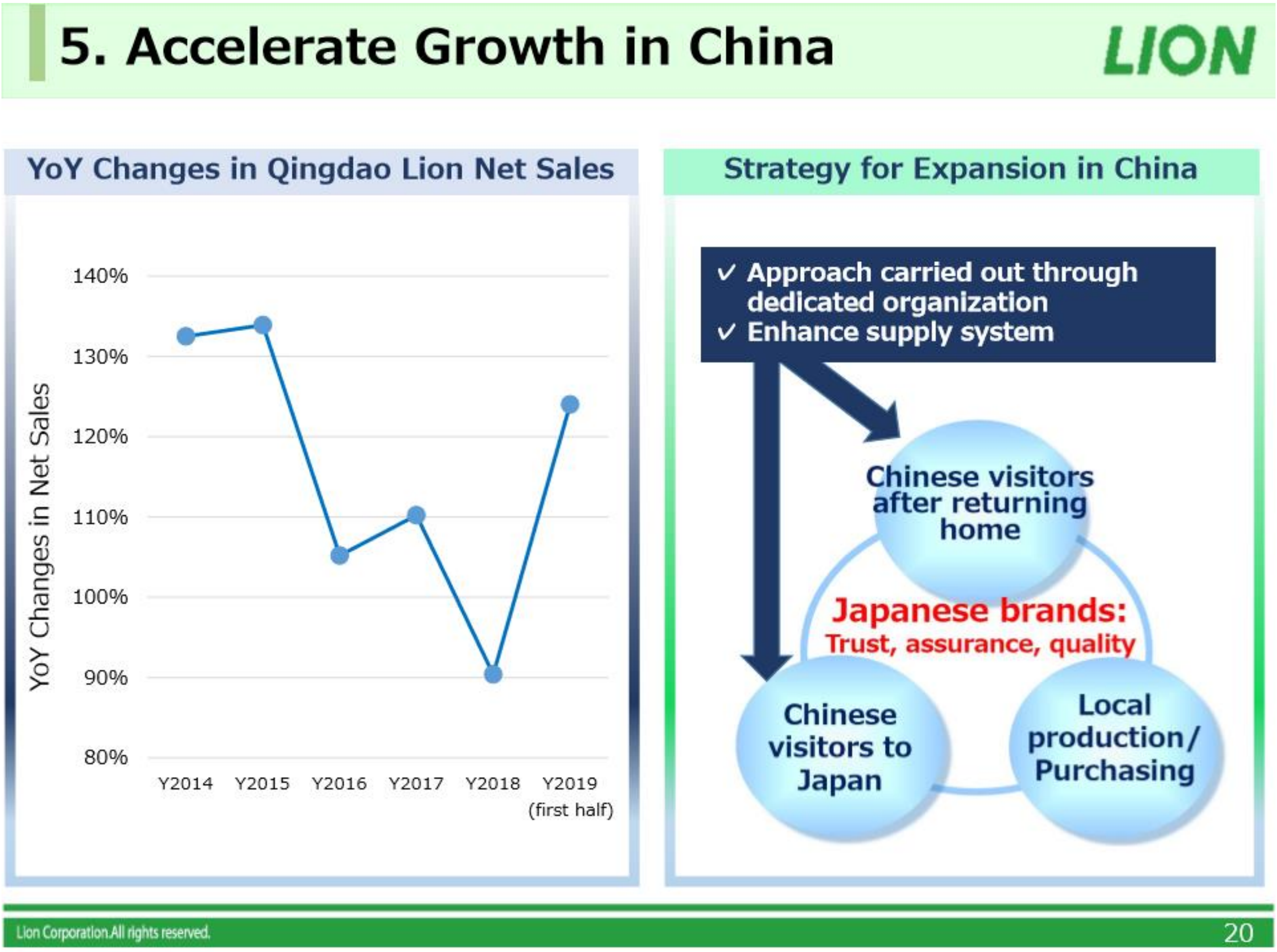
For fabric softeners our fragrance-type Aroma Rich, which experienced a slight slowdown in the first half, will be fully renewed. . We will strive to expand this field by introducing improved products incorporating a new aroma production method that has recently been developed.



Moving on to the consumption tax hike. The chart shows market trends in 2014. In the case of consumer goods, the last-minute demand surge was heavily concentrated about a month prior to the tax hike, followed by a gradual pullback over the next few months. We expect this trend to occur again in this October.

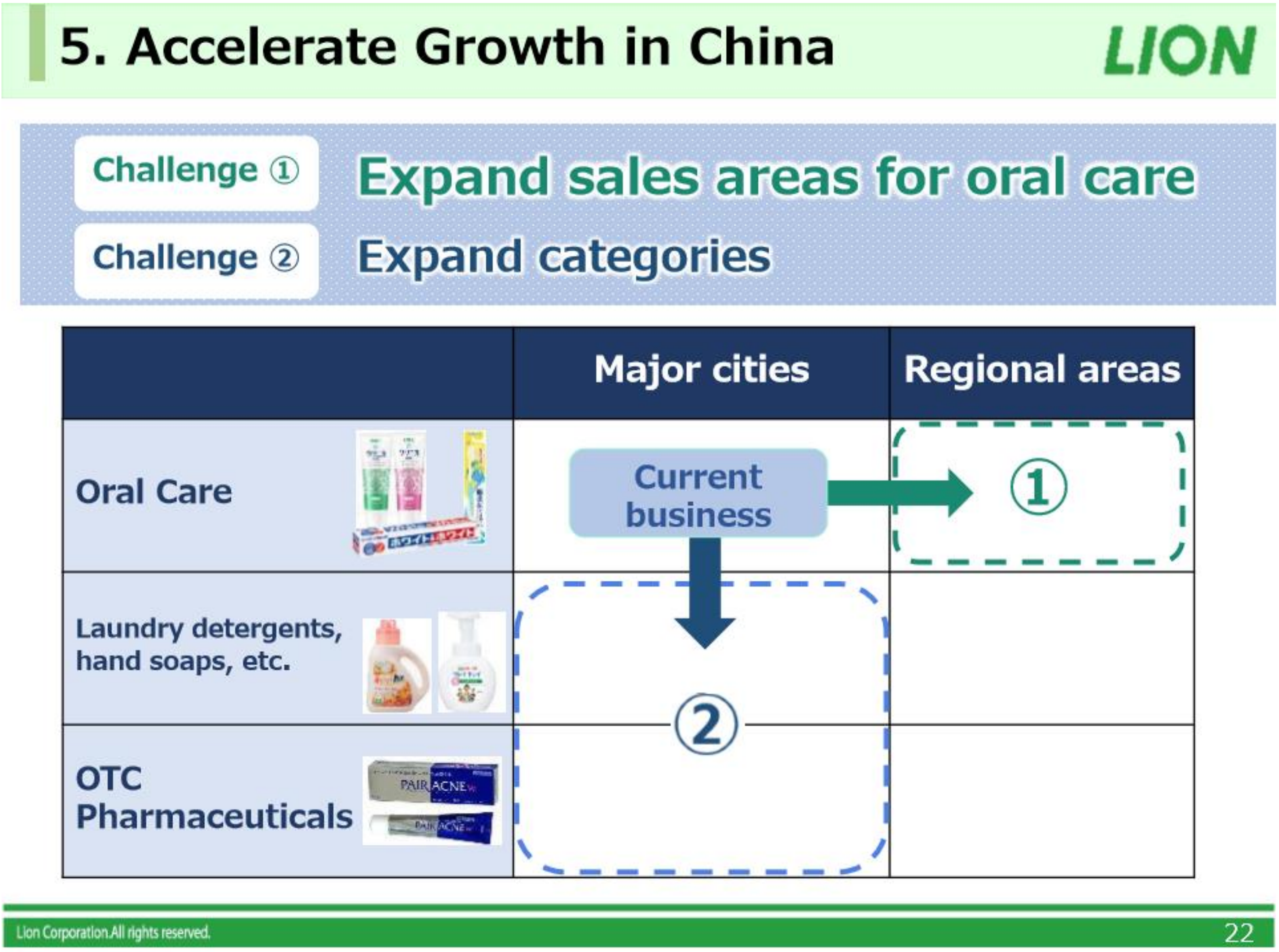
In the previous case, when we subtract the recoil after the tax increase from the rush demand before the tax increase, there is a positive of approximately 3 billion yen over the six-month period. Therefore, we believe that the impact of this consumption tax increase will have a positive impact on revenue during the second half.

By offering a wide range of products such as products for bulk purchase, we intend to effectively respond to these last-minute demand increases and to restrain the subsequent recoil.



Overseas, as you can see, in terms of accelerating growth in the Chinese business, we were able to recover to the growth track through rapid sales growth in the first half of the fiscal year. Our philosophy is to take advantage of the Japanese brand's strengths by moving from inbound to outbound, in other words expanding sales from Chinese visitors to Japan to expand sales from Chinese visitors after returning to their country . We also intend to continue to implement a scenario to build trust for our brands from these customers and lead to purchase of our brands produced locally.

By spreading healthcare habits originating in Japan to other parts of Asian countries and regions, and we aim to increase the Overseas Business, including China.



Regarding initiatives to accelerate growth in China. To date, our business in China has largely taken the form of selling oral care products mainly at Tier 1 and Tier 2 levels. We will expand this business in two ways.

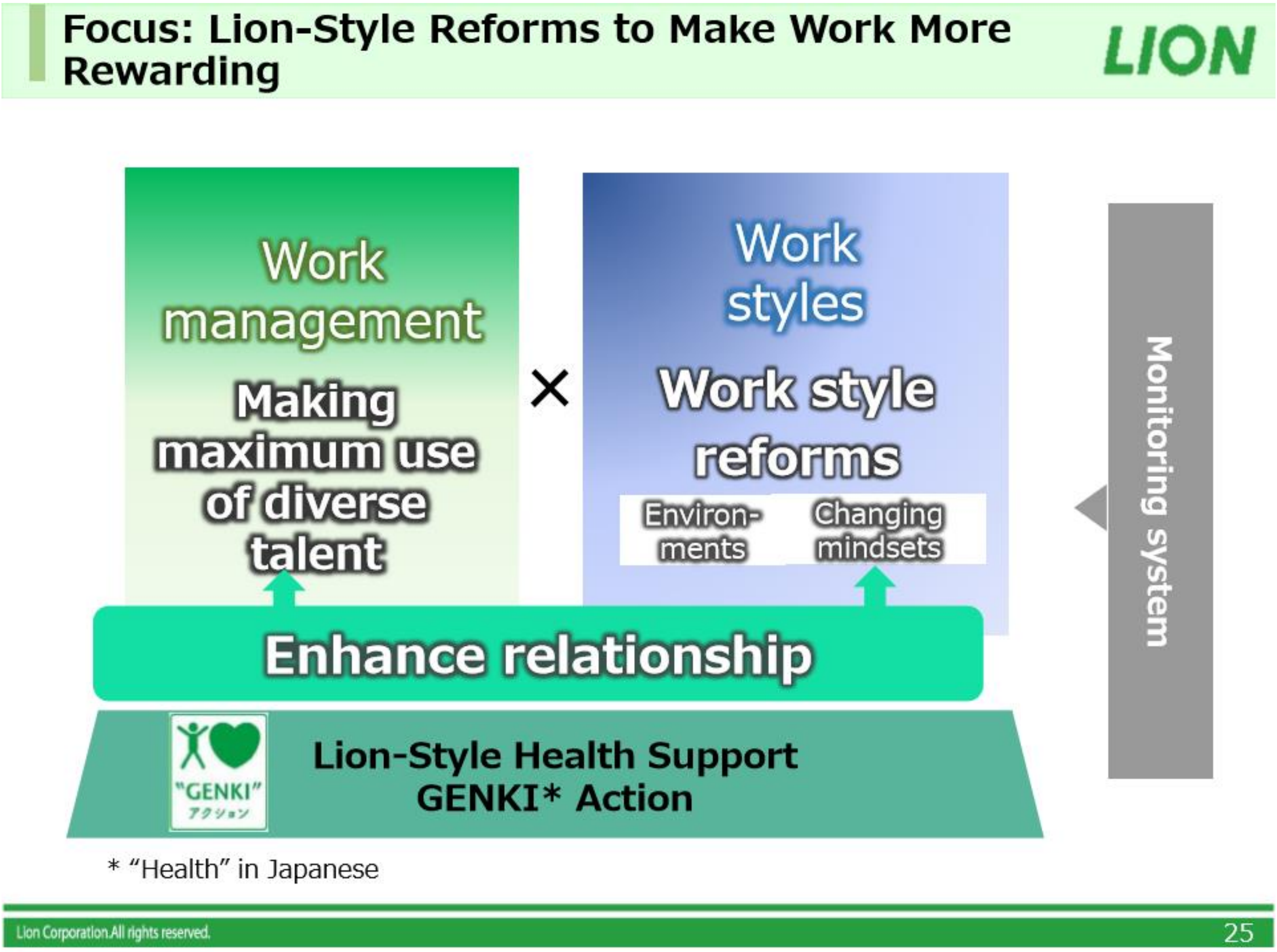
In the second half of the fiscal year, we will actively promote initiatives to introduce oral care products to small stores in both regional areas and major cities. We will also promote measure to increase sales for other products such as laundry detergents, hand soaps and OTC pharmaceutical medicines.

As an example, we started to participate in the LST in Alibaba on June 18, and began selling oral care products to regional cities in China, as well as small stores in major cities. I hope to further accelerate these developments.

Regarding OTC pharmaceuticals, which struggled in the first half of the fiscal year due to a decline in inbound demand, we have just begun selling pharmaceuticals at Alibaba's flagship stores today. We intend to make up for the slump in inbound demand by developing these new channels.

Moving on to business topics. We have launched a new business creation program called NOIL with the aim to develop new business ideas. Employees submit their new business ideas, and the idea that passed the internal competition, will be fostered toward commercialization with the support of external mentoring. Unlike before, the employee who brought up the idea will be in charge of the business.

We have already received more than 120 ideas from within the company, and we are currently preparing for the year-end internal competition.



Second, starting this year, we will actively promote reform of "job satisfaction". Lion's philosophy is not limited to work-style reforms that change work styles. We are also focusing on work management that enables employees to maximize their diverse abilities, as well as measures to enhance relationships between people. Our challenge is to enhance work motivation in an integrated manner.

This is the last topic. Recently, we have established new environmental targets for 2050. Since our founding, we have been involved in the manufacture and sale of products made from plant-derived materials and have been addressing water-related issues and global climate change issues through our products and communications.

In June, the Lion Group formulated and announced a new environmental target, "Lion Eco Challenge 2050". With initiatives such as the SDGs and the Paris Agreement being implemented on a global scale, our Company has committed to do its part and set long-term goals for 2050.

We regard the promotion of environmental initiatives for a sustainable planet as an important issue, and will strive to balance the development of a sustainable society with the development of our business.

2019 Consolidated Financial Forecast

LION

(Billions of yen)	2019	2018	Y-o-Y change	
			Amount	%
Net sales	360.0	349.4	10.5	3.0
Core operating income	31.5	28.3	3.1	11.0
% of net sales	8.8	8.1		
Operating profit	31.0	34.1	(3.1)	(9.3)
% of net sales	8.6	9.8		
Profit for the period attributable to owners of parent	21.0	25.6	(4.6)	(18.0)
EPS (Yen)	72.25	88.11	(15.86)	(18.0)

Note: No change to financial forecast

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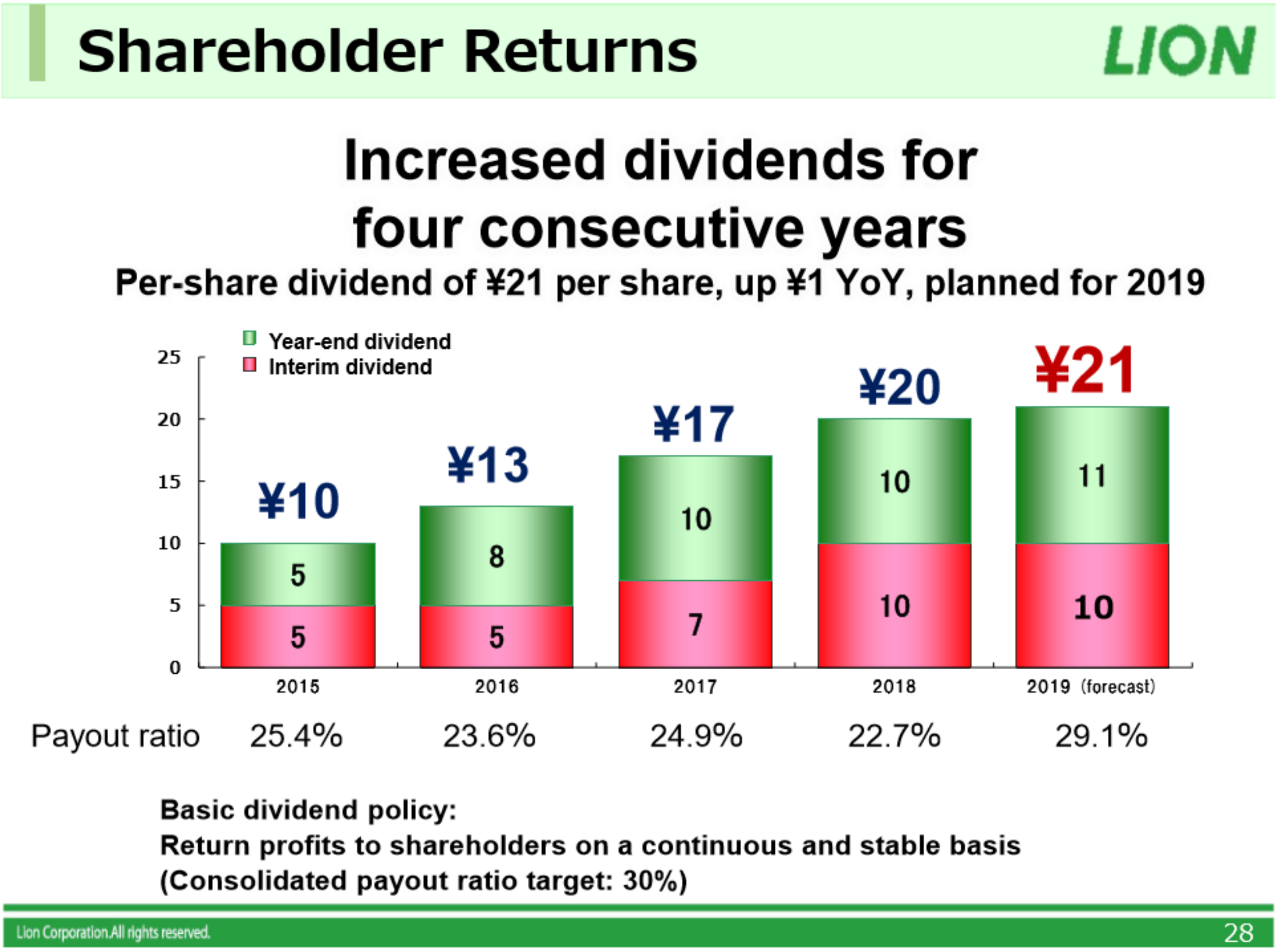
This is the consolidated earnings forecast for the full FY2019. We anticipate a challenging business environment in Japan and overseas, but we have not revised the earnings forecast we announced at the beginning of this year.



Moving on to shareholder returns. As announced at the beginning of the year, and in accordance with our basic policy of providing continuous and stable returns to shareholders, we plan to increase our annual dividend by 1 yen to 21 yen. This is the fourth consecutive year of dividend growth.

This concludes my presentation.

Question & Answer

Q: About the consumption tax hike impact. You have mentioned that the impact of the last-minute increase in demand and the subsequent recoil had an impact of 3 billion on sales in 2014. Was that over the three months before the tax increase and the three months after the tax increase?

A: The last tax increase was in April, so the view is January to March and April to June.

Q: Did the subsequent recoil finish in the April to June period?

A: Although the subsequent recoil continued, it is difficult to measure accurately. I believe that the subsequent recoil remained a little bit.

Q: How much impact has been factored for the figures in this fiscal year?

A: For the six-month period as a whole, we predict a positive impact of 3 billion.

Q: This was the forecast made at the beginning of the fiscal year.

A: Yes.

Q: What is your view of the increase in operating income as a result of this?

A: I would like to refrain from talking precisely, but I do not think this amount will be extremely low or high compared to normal sales, so I think that the margin will be almost even.

Q: I remember from the previous tax-hike, there were some issues in the market, such as delivery not made in time or shortage in goods. I believe that your competitors are also preparing for these eventualities. What preparations have been made for this tax hike based on the previous tax hike?

A: As you can see in the graph above, demand for toiletries tends to be concentrated one month before the tax hike. This time, we anticipate the start of promotions to capture the front-loaded demand of retailers from the start of the Bon festival (in mid-August), based on our impressions of current business negotiations. The inventory is prepared, so we are currently in the process of reviewing delivery. We do not anticipate any major confusion.

Q: Understood. Second, about the comment that cross-border EC has just started today.

A: This is regarding Pharmaceuticals.

Q: In the case of pharmaceuticals, is it difficult to obtain licenses for sale in mainland China? In the case of cross-border EC, can you sell anything that's already for sale in Japan?

A: I don't think it's anything, but the Chinese government has been adding OTC pharmaceuticals to the Positive List since the new EC Law came into effect. As well as proceeding cautiously, we need to make preparations such as collecting information on side effects, which is not an issue in toiletries. We will put these measures in place and implement them.

Q: As of today, what is your Company selling?

A: The OTC products with the biggest sales for us in China are PAIR, an acne medicine, and Kyusoku Jikan, a cooling sheet for foot application.

Q: Will Kyusoku Jikan be registered as a medication?

A: It falls into the category of sundries, but it is an item we have begun selling on this web site. Today, we have also begun handling a total of about 10 products, including eye medications. I think PAIR is our main product on the web site.

Q: This is the Tmall Global site.

A: Yes.

Q: Will these sales be expanding?

A: We would like to steadily increase sales in Tmall Global, but this will not happen immediately because we need to prepare the web site for that. We will continue to expand this business.

Q: Has the acquisition from Shiseido Pharmaceutical been included in the second half sales plan or profit plan?

A: It is not included in the sales/profit plan. However, we would like to refrain from disclosing the amount.

Q: Are profits expected if sales are good?

A: There are no issues like amortization, so profit will go up.

Q: Sales and profits fell short of the target in the first half of the fiscal year, but what were the reasons for the shortfall? Is it due to the weather or the inbound (sales form overseas visitors and social buyers) market?

A: What was below expectations was that the recovery in the Fabric Care field did not reach expectations. Although there has been recovery, it did not reach our expectations.

Furthermore, as I mentioned earlier, we have made management in Thailand focus on profit consolidation, and this has had a positive impact on profits, but sales have been negative.

Third, inbound demand for pharmaceuticals declined. I would like you to appreciate that these three points were larger than we had assumed.

Q: What I would like to hear is the actual amount of decline in inbound sale. How is the comparison between the first quarter of the previous year and the first quarter of this year?

A: In our case, we estimated that there will be about 6 billion yen from inbound sales annually, and 3 billion yen in the first half of the year. Approximately a third of this amount was lost in the first half of this fiscal year due to the enactment of the new EC Law.

Q: So this year it did not reach 3 billion yen, but delinked a billion yen, roughly.

A: Yes.

Q: How about weather factors?

A: In our case, the area most vulnerable to the effects of weather are antiperspirants. They are in the Beauty Care sector. However, this year's weather did not have a significant monetary impact.

Q: Weather-related factors did not affect sales of detergents?

A: August is turning very hot, however July was cool, which may have had an effect on the market as a whole, but our sales were strong.

Q: Weather factors had little effect on sales?

A: We believe that the effect was only small.

Q: Do you think it is possible to attain the annual targets?

A: We are working to maximize gains from the consumption tax hike that I mentioned earlier. In addition to the assumptions made at the beginning of the year, we are expanding our lineup of new products that will be launched in the second half of the year, for example, as we have seen with these new products. We hope that new products will also have a significant impact on sales.

Q: If so, it will be achievable.

A: Yes.

Q: There are various opinions about whether the consumer environment is sluggish or not for the coming tax hike. What are your thoughts on this?

A: It's difficult to say, but while customer trends are important, I think it's very important to know what actions retailers will take.

As for retailers, I believe the effects of the cool summer that you pointed out earlier were negative on sales in the first half. Naturally, as a reaction to this, I believe that they will take aggressive measures to capture this front-loaded demand. I think there will be another last-minute surge before the tax change, at least as big as last time.

Fiscal 2019 Forecast of Change Factors Affecting Core Operating Income

◇Impact on income

(Billions of yen)	Assumptions at start of year (2/13/2019)	Current assumptions (8/6/2019)
Sales, product mix and others	3.1	1.6
Total cost reduction (manufacturing and logistics costs)	2.0	1.5
Raw material price fluctuations	0	1.6
Competition-related expenses	(1.0)	(0.7)
Other expenses	(1.0)	(0.9)
Total	3.1	3.1

37

Q: Regarding page 37. The factors behind the change in core operating income in the first half have already been explained. However, you explained earlier that the Company failed to achieve its first-half sales targets, and there was a change in predicted income gain due to changes in sales and product mix from 3.1 billion yen to 1.6 billion yen. What changes have you made to the forecast for the second half?

A: We have revised the allocation of income gain due to changes in sales and product mix reflecting the results of the first half. We also revised the allocation of income gain due to raw material prices, as we believe a more positive impact can be expected partly due to the appreciation of the yen or the stabilization of crude oil prices.

Q: Are the change in sales and product mix changed also due to the new products?

A: In the second half of the fiscal year, we believe that the top line will grow more than we expected at the beginning of the year, and therefore we expect a gross profit.

Q: Regarding the spike in sales before the tax hike, while some of your competitors claim that the impact might be less than expected, you have mentioned that there will be a significant spike in sales. I was wondering if your views had changed compared to the beginning of the year, and is that why you are expanding various new products?

A: Regarding the latter point, the expansion of new products has nothing to do with the front-loaded demand. Rather, we are expanding our lineup, in part because unless we put more effort into such areas like Fabric Care in response to the competitive environment, there will be no assurance of a recovery.

I believe that everyone is unsure about the surge in demand ahead time. As I mentioned earlier, I think that the strength of the actions taken by retailers is a very big factor.

Certainly, for consumers, there are cash-back or other such reduced tax schemes, which are different from last time. However, in the area of toiletries, the actions of retailers are the biggest factor.

Q: I believe that the inventory, trucks, warehouse, etc. have been already arranged, but if your reading of the situation is wrong, do you think there are any measures to be taken?

A: We have almost completed the accumulation of inventory in response to the last-minute demand surge, so I think that the inventory volume is probably at a peak. However, if there is no rush in demand, we will have to drastically review promotions from October onward. Therefore, I think this is the same for all companies, but we are currently preparing for a contingency based on assumptions.

Regarding the positive and negative effects, if there is a small front-loaded increase, the following decline is also likely to be small. In terms of the gap over the past 6 months, there is a possibility that the gap of 3 billion yen may not be achieved, as I mentioned earlier, but from a slightly longer-term perspective, it is unlikely to be such a large impact.

Q: I would like to hear a little more about China in the mid- to long-term. You have mentioned about a tripling increase in sales of Japan-made products by 2025, compared to previous year. In that case, I would like to talk about expanding the product lineup and bringing it to rural areas as well. Are you thinking of pursuing both of those? Which do you feel will be more effective?

A: Of course, we will expand in 2 directions, but the quantitative expansion is still underway at present by expanding sales of oral care products in the major cities in China at the Tier 1 and Tier 2 level. I believe that this contribution will be central to this effort. I think it will take some time for Tier 1 and Tier 2 to make more full-fledged contributions to the businesses.

Q: In Northeast Asia, comparing the first and second quarters, sales seem to be slightly decreasing on a yen basis. Is this a currency effect?

A: As far as China is concerned, in the first half of the year, growth exceeded 20% on a year-on-year basis. The first quarter is certainly over 30%.As sales continue to grow at a rate of over 15%, I believe that there is smooth progress.

The main reason for the impact was that sales in South Korea, especially in the second quarter, was negatively affected by the aforementioned economic conditions.

Q: Could you tell me net sales results of main operating countries in terms of currency-based sales in the first half of the fiscal year? Also, the first quarter was profitable overseas, but the second quarter was not. Prices of raw materials were cited as a factor in overseas profits gain in the first quarter, and also for the second quarter. So could you explain the factors of decline in profitability of the second quarter, as well as the outlook for the second half?

A: We do not disclose specific sales figures for each country, so I'm afraid I can't answer your first question. This would be a very qualitative explanation, but China, Indonesia not included in the scope of consolidation Singapore and Hong Kong are achieving continuous sales growth.

Compared to the first quarter, sales in Thailand and Malaysia have slowed somewhat, for the reasons I explained earlier.

South Korea and Taiwan are slightly below the previous year's level. Business itself in Taiwan is not so large, so in terms of the impact on the whole, we think that the impact of South Korea falling below the previous year's level is having an impact.

As for profits, although the growth in profits compared with the previous year is not as large as in the first quarter, we are still able to maintain an upward trend. For this reason, we believe that we can maintain an upward trend in profits in the second half of the fiscal year, when cost reductions in Malaysia begin to bear fruit in Thailand.

Risk factors include the possibility that sales in South Korea may worsen further due to the deterioration of the relationship between Japan and South Korea. I think this may be a factor in future.

Q: What do you think is the reason for a slowing of profit growth in the second quarter?

A: Quarterly fluctuations in the first and second quarters has an effect to some extent. If the first quarter of the previous year was bad and the second quarter was good, this would be the case at even pace in the current fiscal year, so I would like you to think that the second quarter is not bad in terms of the range of absolute profit margins.

Q: Will the cost reduction amount in Thailand and Malaysia increase in the second half?

A: Impacts are partly reflected in the end first half of the fiscal year, but we believe that it will be reflected mainly in the second half.

Q: Regarding the perspective on raw materials, you have mentioned that the reason for this change was due to the exchange rate and the crude oil price. If this trend continues, can we expect a positive impact on profit until the first half of next year? I understand that your assumptions for palm oil have not changed. However, I believe that the price is not stable at the moment. Can we expect a more positive impact on your profit due to palm oil costs in the second half?

A: As you mentioned, the price of natural oils and fats, including palm oil, has been stable at a very low level, and I think that this trend will continue at least through the second half of the fiscal year. We do not directly buy palm oil or crude oil but buy materials processed from palm oil. Considering that there is a three- to six-month time lag between the processed product price and that of palm oil, there is a chance that we may be assured of low prices until the first half of next year.

I believe that the availability of low-priced raw materials will remain possible until about the first quarter of next year, but I wouldn't be able to estimate any further in the future.

A: I would like to add a little more to raw material prices. The initial assumption of the price of domestic naphtha was above 50,000 yen at the beginning of the year, but the latest observations suggest that it at the higher end of the 40,000-yen range. As mentioned earlier, we are looking at the impact of raw material prices in the second half of the fiscal year as a factor behind the increase in profits. (Answered by Sakakibara)

Q: Is there a reason why the estimate for palm oil has not been changed?

A: In the case of natural oils and fats, there is more volatility than in the case of petroleum. This is a little more conservative.

2019 Consolidated Financial Forecast

Revised forecasts of net sales by segment

(Billions of yen)	Assumptions at start of year (2/13/2019)	Current assumptions (8/6/2019)	Y-o-Y change
Consumer Products	220.0	223.5	3.5
Industrial Products	34.5	34.0	(0.5)
Overseas	101.0	98.0	(3.0)
Other	4.5	4.5	0
Consolidated Total	360.0	360.0	0

36

Q: Regarding page 36. The annual forecast for Consumer Products has been increased by 3.5 billion yen, and the annual forecast for overseas consumption has been reduced by 3 billion yen. Regarding Consumer Products, it was mentioned earlier that sales of fabrics and pharmaceuticals are a little sluggish. Why are you bullish on your annual assumptions so far?

A: In the current fiscal year, the increase in new products that had not been originally planned will be carried out mainly in Japan. In addition, we are reviewing the number of new products that we had originally planned, taking into account the fact that the extent of contribution to sales has expanded over the past six months, due to such factors as the launch of products ahead of schedule.

Overseas, as I mentioned earlier, competition is intensifying in Thailand, Malaysia, particularly in detergents. In light of this, we want to manage our products so that top-line expectations are not too high and do not impair our profits. We have decided to change the composition of these segments.

Q: If we deduct consolidated sales for the first half of the fiscal year from our annual forecast, we will see a predicted 6.5% increase in sales and 11% increase in operating profit in the second half of the fiscal year. Are you confident of achieving this?

A: Yes. Despite the difficult business environment, I believe we can achieve both sales and profits goals.

Q: The growth rates of the second quarters in China appear to be slowing down compared to the first quarter. It seems growth in the second half may not be as strong as in the first quarter, so is the situation changing a little bit?

A: Rather, the previous year's first quarter and second quarter results are significant factors in the year-on-year rate of change.

Especially in the first quarter of the previous year, we were in a period of inventory adjustments with large controls on shipments, and therefore the figure of the fiscal first quarter was 30% higher based on the same period last year. Sales in the second quarter were not extremely low in the previous year. From a year-on-year point of view, the first quarter and the second quarter are landing just over 30% and 15%, respectively. In absolute terms, sales are almost even between the first and second quarters.

Q: The impact of Japan-South Korea relations is being observed carefully. In the first half of the year, sales in South Korea were slightly negative. What is the assumption for the full fiscal year? At what level of risk will things no longer be going as planned?

A: We cannot make any assumptions about the level of quantitative risk today. Because we produce our products locally in South Korea, we are not subject to customer boycotts yet. However, starting in July, we are reconsidering our campaigns and promotions to retailers. I believe that there will be an impact that cannot be ignored depending on the extent to which this trend will expand in the future.

With regard to South Korea, we not only sell locally produced products to the domestic market, but also have a reasonable scale of businesses that sell overseas, such as to Russia a and China. Therefore, we intend to make up for this negative impact by strengthening our business in fields that are not affected by the current relationship between Japan and South Korea.

Q: What is your view of sales in South Korea this year?

A: Although we would like to refrain from presenting concrete figures, we are currently formulating a plan that assumes a level roughly equal to that for the previous year.

Q: I would like to ask you about the dermatologic pharmaceuticals business. I understand that pharmaceuticals will be nurtured as a third pillar. How will this business be differentiated and your company's strengths developed?

As for the expansion of the product lineup and sales, please tell us as much as possible about how the products will be developed.

A: OTC pharmaceuticals are also characterized by an aging population and the recent trend of an increasing number of allergic diseases. In this respect, the field of dermatologic medicines is regarded as one of the most promising areas in the OTC field.

Against this backdrop, as I mentioned earlier, it is extremely important for us to increase our presence in the field of sales, and we will introduce effective products tailored to each of these conditions. We believe that sales strategies, such as how to promote the entire category, will become more important or effective in the future, as I have explained.

We believe that these areas of dermatologic medicine are expected to grow in the future. We will continue to expand in these areas by adopting a strategy of effectively selecting these subcategories for dermatologic medicines. I believe this will be a somewhat medium- to long-term strategy.

Q: Regarding page 21, it is written as "spread healthcare habits from Japan in order to accelerate the growth of Chinese demand." What specifically does this mean? If you bring Japanese healthcare practices to Asia, how will your business opportunities expand? Please tell us about this point in more detail.

A: We understand that our business is structured so that consumers build habits and buy products associated with those habits.

I believe that there is still insufficient penetration in China and other parts of Asia in the practice of flossing after brushing teeth, or using dental rinses after brushing. We would like to encourage these habits for additional care, and provide the products associated with these habits.

Although this is not a simple matter, I believe that the establishment of such customs through online promotions will lead to the expansion of the market and the growth of our businesses will be an extremely important point, as I have written before.

Q: Regarding the revision of the earnings forecast on page 36, I would like to confirm that the reduction of 3 billion yen overseas should be 3 billion yen in Thailand and Malaysia.

A: Yes, that's true.

Q: Please tell us your plans for cross-border e-commerce sales in China and whether you expect this to be included in sales for Japan.

A: I am unable to give information about concrete figures, but the figures will be both. The cross-border e-commerce sales will be included in sales for Japan, and then the products that Qingdao Lion imports from Japan and sells on Qingdao Lion's website, are considered to be outbound, so this portion is booked as Qingdao Lion's sales.

Q: Which OTC drugs are currently approved for sale to China by your company?

A: There are no OTC drugs that can be sold in China retails. These sales are limited to cross-border sales.

Q: At present it will be via Tmall Global and the local normal Tmall.

A: Regarding pharmaceuticals, only Tmall Global is involved.

Q: In that case, will all sales of OTC drugs in China be included in the figures for Japan?

A: All pharmaceuticals will be recorded in the figures for Japan. In addition to pharmaceuticals, we also sell a considerable amount of oral care and toiletries products in outbound markets. These products are recorded in both local sales of Qingdao Lion and sales in Japan. However, for pharmaceuticals, only Tmall Global is recorded today, and this is recorded only in Japan.

Q: Regarding the new value creation program on page 24, we saw the innovation labs at Hirai Research Laboratory before, but would this be a different approach?

A: The Innovation Laboratories are also engaged in the creation of new types of businesses. The processes for full-fledged launch of these businesses will be partially incorporated into the NOIL program, so I hope that you will appreciate that they are complementary.

[END]

Document Notes

1. *This document has been translated by SCRIPTS Asia.*

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