



## **Lion Corporation**

Financial Results for the First Half of 2020

August 5, 2020

## Event Summary

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[Company Name]	Lion Corporation	
[Event Type]	Earnings Announcement	
[Event Name]	Financial Results for the First Half of 2020	
[Fiscal Period]	FY2020 Q2	
[Date]	August 5, 2020	
[Number of Pages]	27	
[Time]	16:30 – 17:34 (Total: 64 minutes, Presentation: 19 minutes, Q&A: 45 minutes)	
[Venue]	Dial-in	
[Participants]	79	
[Number of Speakers]	5	
	Masazumi Kikukawa	Representative Director, President, Executive Officer
	Takeo Sakakibara	Director, Senior Executive Officer
	Kei Minamikawa	Director of Corporate Planning Department
	Akihiko Takeo	Director of Finance Department
[Analyst Names]*	Keita Tanimoto	Director of Investor Relations Office, Corporate Planning Department
	Katsuro Hirozumi	Daiwa Securities Co. Ltd.
	Mitsuko Miyasako	Jefferies (Japan) Limited
	Wakako Sato	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.
	Yuji Ohana	Okasan Securities Co., Ltd.
	Yusuke Komatsu	Tokai Tokyo Research Institute Co., Ltd.
	Hisae Kawamoto	UBS Securities Japan Co., Ltd.

\*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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## Presentation

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**Tanimoto:** Thank you very much for attending Lion Corporation's telephone conference today. Previously, Financial Results Briefings for the Second Quarter were held at the venue. However, in light of the circumstances, we will hold the briefings on a telephone conference this time.

Today, from the Company, Masazumi Kikukawa, Representative Director, President, Executive Officer; Takeo Sakakibara, Director, Senior Executive Officer; Kei Minamikawa, Director of Corporate Planning Department; and Akihiko Takeo, Director of Finance Department, are attending in the meeting. My name is Tanimoto, Director of Investor Relations Office, Corporate Planning Department, and I will serve as moderator today.

Mr. Kikukawa will first explain the results for the first half of the fiscal year ending December 2020, and then we will move to a question-and-answer session. The entire meeting is scheduled to take one hour.

The materials used in the explanation are available on our website, so please refer to them as well.



The forecasts and projected operating results contained in this report are based on information available at the time of preparation, and thus involve inherent risks and uncertainties. Accordingly, readers are cautioned that actual results may differ materially from those projected as a result of a variety of factors.

- \* The Lion Group applies the International Financial Reporting Standards (IFRS) .
- \* Monetary amounts herein are truncated after the last digit shown.

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Before we begin the conference call, please note: The forward-looking statements based on current expectations are subject to risks and uncertainties. Actual results may differ from these forecasts.

Then, we will start explanations of the financial results. Please, Mr. Kikukawa, President.

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**Kikukawa:** I would like to thank you for your participation in our financial results briefing.

Before beginning explanation, I would like to express my regret to the people who lost lives of COVID-19, and I would like to express my sympathy for those affected.

I would also like to express my heartfelt condolences to all those who lost their lives in the disaster of heavy rain last month, as well as my sympathy for those who suffered the disaster.

I will now explain the financial results for the first half of 2020 in accordance with the materials disclosed today.

Following our consolidated business results for the first half of 2020, I would like to talk about key measures in the second half and our responses to COVID-19, and then explain our full-year consolidated business forecasts.

## Consolidated Performance Overview **LION**

### Sales and profit met forecasts\* and rose year on year

- **Sales of hygiene-related products increased due to the spread of the novel coronavirus.**
  - Sales of hand soaps and hand sanitizers grew significantly.
  - Increased time spent at home drove significant growth in sales of dish washing detergents and household cleaners.
- **Core operating income and the core operating income ratio increased due to product mix changes and a reduction in competition-related expenses.**
- **Operating profit and profit for the period attributable to owners of parent rose substantially year on year due to a gain on transfer of non-current assets (land Lion's head office occupies).**

\*Forecasts published February 28, 2020

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First of all, I would like to explain the outline of consolidated financial results for the first half of the fiscal year under review. See page three.

We revised the forecast upward on July 31. In the first half, we achieved the consolidated results forecasts revised at the end of February this year both for sales and profit, and sales and profit increased YoY.

Due to the impact of COVID-19, sales of hand soaps, hand sanitizers and other hygiene-related products increased significantly. In addition, sales of dish washing detergents and household cleaners increased significantly due to an increase in time spent at home.

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In addition, changes in the sales mix and a decrease in competition-related expenses caused core operating income to increase significantly and the operating income ratio to rise.

Operating profit and profit for the period attributable to owners of parent increased significantly due to the recording of a gain on the transfer of the head office in February this year.

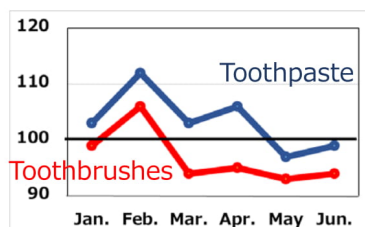
## Market Trends

**LION**

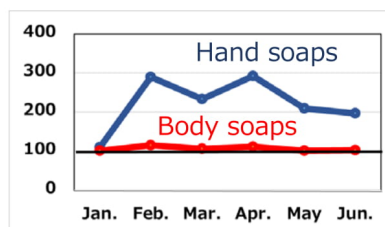
### Y-o-Y comparison of consumer products markets in Japan by in-store sales value (%)

Source: INTAGE Inc. SRI, SDI survey

#### Oral Care



#### Beauty Care



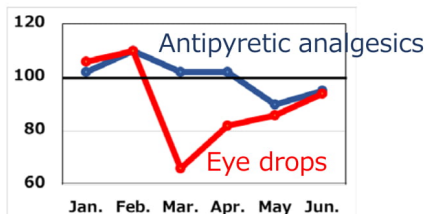
#### Fabric Care



#### Living Care



#### Pharmaceutical



### Overseas Markets

Southeast Asia	Hand soaps: Doubled in Thailand and quadrupled in Malaysia Laundry detergents: Down 92% in Thailand and 88% in Malaysia
Northeast Asia	Hand soaps: Doubled in China, up approximately 40% in South Korea

Source: Nielsen

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Page four shows the main trends in the domestic consumer products markets and overseas markets in which we participate.

Each graph of the domestic consumer products markets shows the YoY change in in-store sales value.

As you can see, sales of hand soaps, household cleaners, and dishwashing detergents have continued to be larger than the previous year through the year. On the other hand, sales of toothbrushes, laundry detergents and fabric softeners were significantly negative in May, reflecting a pullback following bulk purchases at the time of the spread of the infectious disease in February.

In the overseas markets, the hand soap market is expanding significantly in both Southeast Asia and Northeast Asia, as in Japan, but in Southeast Asia in particular, the market for laundry detergents, our mainstay market, shrank due to a decline in consumption caused by restrictions on outdoor activities and other factors.

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## Financial Results for the First Half of 2020

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(Billions of yen)	Jan.–Jun. 2020	Jan.–Jun. 2019	Y-o-Y change		Deviation from forecast <sup>2</sup>
			Amount	%	
<b>Net sales</b>	<b>169.1</b>	<b>167.3</b>	<b>1.7</b>	<b>1.1</b> 2.0 <sup>1</sup>	<b>1.1</b> 0.7
<b>Core operating income</b> % of net sales	<b>16.3</b> 9.7	<b>12.4</b> 7.4	<b>3.9</b>	<b>31.4</b>	<b>3.8</b> 31.0
<b>Operating profit</b> % of net sales	<b>25.9</b> 15.4	<b>12.8</b> 7.7	<b>13.0</b>	<b>101.5</b>	<b>4.4</b> 20.8
<b>Profit for the period attributable to owners of parent</b>	<b>18.6</b>	<b>8.6</b>	<b>9.9</b>	<b>114.3</b>	<b>3.6</b> 24.2
<b>EPS (Yen)</b>	<b>64.06</b>	<b>29.89</b>	<b>34.17</b>	<b>114.3</b>	<b>12.46</b> 24.1

Note: 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.

1. Y-o-Y change at constant currency excluding exchange rate fluctuations.

2. Revised forecast published February 28, 2020.

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Page five shows our consolidated results for the first half.

Net sales increased by JPY1.7 billion, or 1.1%, compared with the same period of the previous fiscal year. Excluding the effect of exchange rate fluctuations, the percentage in real terms increased by 2%.

Core operating income increased by JPY3.9 billion, and core operating income ratio was 9.7%, an increase of 2.3 percentage points from the previous fiscal year.

Operating profit increased by JPY13.07 billion, including the gain on sales of land.

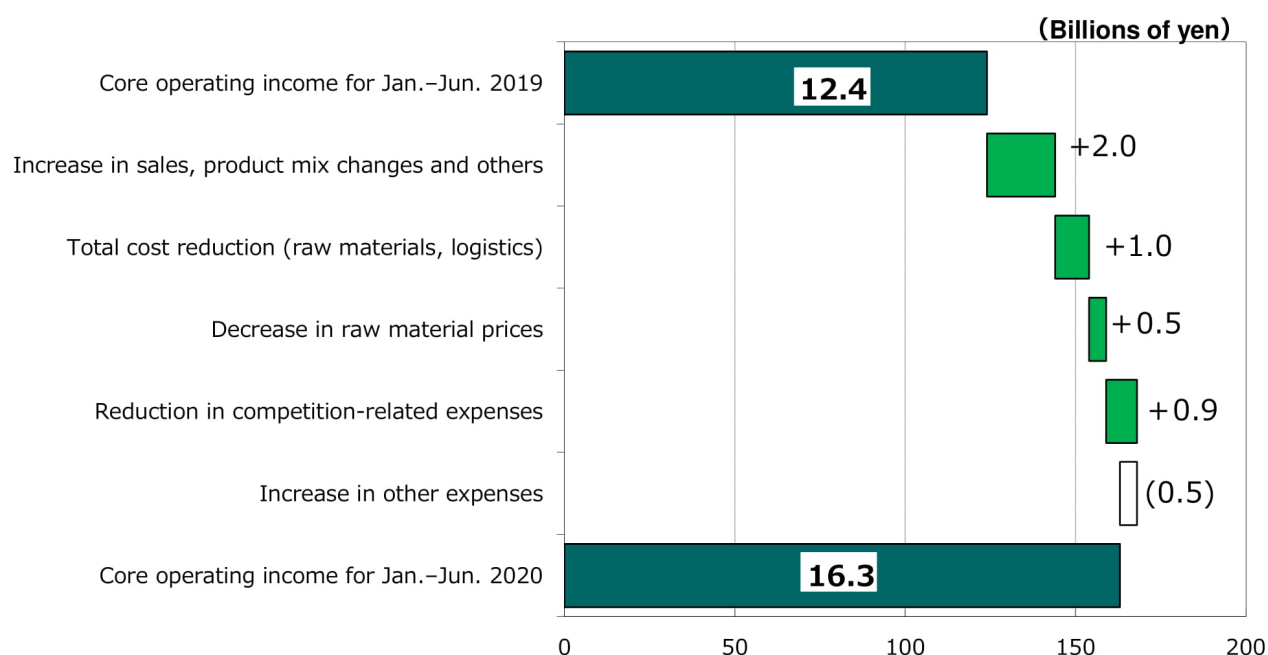
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## Year-on-Year Changes in Core Operating Income



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See page six. Let's look at the main factors behind the YoY increase or decrease in core operating income.

The impact of increase in sales, product mix changes and others was the largest. This was mainly attributable to the increase in gross profit resulting from the increase in sales and the increase in the sales composition of high-margin hygiene-related products.

The main factor behind the decline was an increase in other expenses, which was mainly due to an increase in personnel expenses linked to business performance and an increase in depreciation and amortization.

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# Results by Business Segment



(Billions of yen)	Net sales*				Segment profit (Core operating income)		
	Jan.—Jun. 2020	Jan.—Jun. 2019	Y-o-Y change		Jan.—Jun. 2020	Y-o-Y change	
			Amount	%		Amount	%
Consumer Products	115.7	110.2	5.4	5.0	11.7	4.0	51.7
	108.1	102.8	5.2	5.1	10.2		
Industrial Products	27.1	27.0	0.1	0.4	1.0	0.2	33.4
	15.1	16.0	(0.8)	(5.2)	3.8		
Overseas	49.6	51.4	(1.7)	(3.5)	3.3	(0.3)	(9.8)
	44.3	46.7	(2.4)	(5.2)	6.7		
Other	14.5	15.5	(0.9)	(6.4)	0.8	0.3	56.9
	1.4	1.6	(0.1)	(11.5)	6.1		
Adjustment	(38.0)	(36.9)	(1.0)	—	(0.6)	(0.3)	—
	0.0	0.0	(0.0)	—	-		
Consolidated Total	169.1	167.3	1.7	1.1	16.3 9.7	3.9	31.4

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

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The following page shows the results by segment. The upper row of net sales is total net sales and the lower row is sales to external customers.

First, in the Consumer Products Business, net sales rose 5%, driven by growth in sales of hygiene-related products, despite a pullback in the second quarter from bulk purchasing demand in the first quarter. Segment profit increased significantly, and the profit margin rose to 10.2%.

In the Industrial Products Business, although total net sales increased due to increased intra-group transactions, sales to external customers declined due to the sluggish market in the chemicals field. Segment profit increased due to an increase in the composition of the high-margin detergents for institutional-use.

In the Overseas Business, sales and profit declined due to a contraction of the market, particularly in Southeast Asia, caused by restrictions on outings, as well as the continued geopolitical impact throughout the fiscal year in South Korea.

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## Consumer Products Business Net Sales by Product Category



(Billions of yen)	Net sales			
	Jan. –Jun. 2020	Jan–Jun. 2019	Y-o-Y change	
			Amount	%
Oral Care	30.6	29.8	0.7	2.6
Beauty Care	16.1	11.0	5.1	46.9
Fabric Care	26.9	28.6	(1.7)	(6.0)
Living Care	11.9	9.0	2.8	31.4
Pharmaceutical	10.9	12.0	(1.1)	(9.5)
Other	19.1	19.6	(0.4)	(2.5)
Total	115.7	110.2	5.4	5.0

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Next, let's look at net sales in the Consumer Products Business by product category on page eight.

In the oral care field, net sales were strong in the first quarter of the fiscal year under review. As we saw earlier in the graph, however, from April, sales of toothbrushes were mainly sluggish due to the reaction to the bulk buying demand, and total sales for the first half of the year were up 2.6%. However, we are continuing to grow faster than the market as a whole.

In the beauty care field, although hand soaps accounted for the bulk of the increase in sales, body soaps also showed steady growth.

The fabric care field was also highly affected by the pullback in bulk purchasing demand from April to June, and as a result, net sales declined 6%.

The living care field was affected by an increase in time spent at home due to voluntary restraint on outings. Sales of our main three fields such as dishwashing detergents, cooking-related products, household cleaners were favorable.

In the pharmaceutical field, sales of antipyretic analgesics rose YoY, and new dermatological drugs launched smoothly. However, net sales declined due to the significant impact of a sharp decline in demand from visitors to Japan.

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## Overseas Business Net Sales by Region

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(Billions of yen)	Net sales			
	Jan.–Jun. 2020	Jan.–Jun. 2019	Y-o-Y change	
			Amount	%
Southeast Asia	32.5	34.5	(1.9)	(5.7)
Northeast Asia	17.0	16.9	0.1	1.1
Total	49.6	51.4	(1.7)	(3.5)

\*Y-o-Y change at constant currency excluding exchange rate fluctuations:  
Southeast Asia: (3.3%); Northeast Asia: 6.5%; Total: (0.1%)

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Next, I will explain the Overseas Business.

In Southeast Asia, net sales declined 5.7% on a YoY basis, due to the impact of a decline in consumption in Thailand and Malaysia caused by restrictions on outings. In Malaysia, the Company was unable to implement the initially planned measures to improve profitability, mainly in laundry detergents, due to the impact of COVID-19. Even excluding the impact of exchange rate fluctuations, net sales declined 3.3%.

Meanwhile, total net sales in Northeast Asia increased by 1.1% YoY, or 6.5% excluding the impact of exchange rate fluctuations. The market recovered and business recovered quickly in China, leading the overall growth. However, in South Korea, although sales of hand soaps grew significantly, total sales declined YoY due to the deterioration of the business environment from the summer of last year.

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## Consumer Products

- Significant growth in the beauty care and living care fields
- Growth in the oral care field continued to outpace market growth
- In fabric care, mainstay laundry detergents and fabric softeners struggled
- Sales of pharmaceuticals fell due to decline in demand from visitors to Japan

## Industrial Products

- Sluggish market conditions caused sales to decline in the chemical business, but detergents for institutional use products secured higher sales due to growth in sales of hygiene-related products, despite challenging conditions for detergents for kitchen use

## Overseas

- In Southeast Asia, consumption fell due to strict restrictions on movement and activity, we were unable to conduct planned marketing, and sales fell
- In Northeast Asia, China recovered quickly, and sales were strong

The following slide summarizes the results for the first half of the year, which we have explained so far. I will omit the explanation.

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## Risk due to the novel coronavirus pandemic

- Slower or negative global economic growth
- Decreased incomes due to worsening economies, weaker consumer confidence due to concerns about the future
- Restrictions on social and economic activity in key countries where we do business

## Geopolitical risks

- Prolongation of U.S.-China trade frictions
- Worsening conditions in South Korea and Hong Kong

I would like to talk about key measures for the second half of 2020.

First, I would like to explain our awareness of the business environment risks that we face.

Risks arising from the COVID-19 pandemic include the slowdown in global economic growth, a decline in incomes due to the worsening economy, a decline in consumer confidence due to concerns about the future, and restrictions on social and economic activities in major economies where we operate.

Geopolitical risks include the prolonged trade friction between the United States and China and the worsening situation in South Korea and Hong Kong.

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### Consumer Products

- Demand for hygiene-related products will remain high
- Stagnation in fabric care and other key markets
- Demand from visitors to Japan not recovering due to sharp decline in international tourists

### Industrial Products

- Delayed demand recovery in the Automotive, Electrical and Electronics, and other fields
- Decrease in demand for institutional-use products in the food service industry

### Overseas

- Performance remains strong in China following quick recovery
- Weak consumption in Southeast Asia due to continued restrictions on activity

I will now explain the impact of these risks on each segment.

In the Consumer Products Business, although we expect demand for hygiene-related products to remain at a high level, there is a risk of sluggish growth in the fabric care and other key markets. In addition, we do not expect the inbound demand to recover in the second half of the year, due to a sharp decline in the number of tourists visiting Japan.

In the Industrial Products Business, we expect that it will take some time to recover demand in the automotive, electric and electronic sectors. In addition, demand for detergents for institutional use in the restaurant industry is expected to remain severe.

The Overseas Business is expected to remain strong in China, where the market recovered at an early stage. On the other hand, in Southeast Asia, we believe that ongoing restrictions on activities in Thailand and Malaysia could delay economic recovery and lead to a continued slump in consumption.

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## Key Measures in the Second Half **LION**

- ① **Respond to demand for hygiene-related products**
- ② **Continue growth in oral care**
- ③ **Accelerate growth in China**

In light of these conditions, we will focus on responding to demand for hygiene-related products, continuing to grow in the oral care field, and accelerating growth in the Chinese Business in the second half of the year.

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# Key Measures in the Second Half **LION**

## ① Respond to demand for hygiene-related products

### ● Increase hand soap production

- Domestic: Reinforce production capacity with additional production lines, etc., and expand contracted production
- Overseas: Maintain increased production framework (Thailand and South Korea)

### ● Marketing to promote hygienic habits

Reinforce educational activities aimed at forming hygienic habits, such as hand washing

Then, I will add brief explanations to each measure.

Demand for hygiene-related products is expected to continue to be high. For hand soaps, we will continue to increase production capacity in Japan by adding production lines, and further expand outsourced production.

Overseas, we will increase production at our production bases in Thailand and South Korea. We will also strengthen educational activities aimed at establishing hygiene practices, such as hand washing.

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# Key Measures in the Second Half **LION**

## ② Continue growth in oral care

- Proactively invest in marketing focused mainly on key brands
- Expand high-value-added product lines to reinforce brand position



## ③ Accelerate growth in China

- Continue nurturing markets for key brands and reinforce e-commerce sales channels

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In the oral care field, we will continue to invest aggressively in marketing in the current fiscal year to develop and strengthen our mainstay brands: Clinica for caries prevention, Systema for gum disease prevention, and NONIO for breath care.

We will also strengthen our brand position by expanding our lineup of high-value-added products.

In terms of accelerating the growth of our Chinese Business, we will continue to cultivate mainstay brands including Japanese products, such as Systema and Clinica, as in the past, and focus on strengthening the EC channel, which is experiencing accelerated growth.

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# Lion's Response to the Novel Coronavirus Pandemic

**LION**

## ● Fulfilling our responsibility as a manufacturer of daily necessities

- Continued full-capacity production, mainly of hand soaps
- Emergency production of highly concentrated ethanol products (for institutional use)

## ● Decreasing employee infection risk and increasing work efficiency

### Offices

- Promoting working from home and improving telecommunication environments
- Proactively using online meetings
- Changed the flextime system (eliminated core time)
- Reducing infection risk during commuting (promoting staggered commuting, etc.)

In this section, we will discuss our responses to COVID-19.

In order to fulfill our responsibilities as a manufacturer of daily necessities, we began full production during this six-month period, centered on hand soaps. In addition, our affiliated companies are conducting urgent production of high-concentration ethanol products for commercial use.

We will continue to increase our production capacity, and in the second half of the year, we will make every effort to ensure a stable supply of hygiene-related products.

We also promoted initiatives to reduce the risk of infection among employees and to improve operational efficiency.

In offices, a shift toward working at home has been promoted, with nearly 90% of employees transitioning to working at home during this time period, and the establishment of working at home has progressed even after the declaration has been released.

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# Lion's Response to the Novel Coronavirus Pandemic

**LION**

## ● Decreasing infection risk and increasing work efficiency

### Factories

- Thorough hand washing, disinfecting and use of masks
- Improving physical distancing, etc., in cafeterias and during breaks
- Improved ventilation in changing rooms, regularly disinfecting meeting rooms and other shared spaces
- Reducing risk during commuting (payment for rental cars, etc.)

## ● Social initiatives

- Providing information about hand washing methods, etc.
- Support for medical professionals (donations to the Japanese Red Cross Society and Red Cross Society of China)

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In order to ensure a stable supply of products, we have taken measures at our plants to minimize the risk of infection among employees, as shown here.

Although not stated here, special allowances were paid to employees who performed their duties in order to fulfill their supply responsibilities.

As part of our social activities, we provided information on correct hand-washing methods as a countermeasure against COVID-19 and made donations through the Japanese Red Cross Society and Red Cross Society of China to support medical professionals.

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# Lion's Response to the Novel Coronavirus Pandemic

**LION**

## Shifting to new work styles

Making changes not just as temporary COVID-19 countermeasures, but as part of permanent work style reform in line with Lion Professional Fulfillment Reforms



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We will link these new work-style initiatives to permanent work-style innovations in line with "Lion Professional Fulfillment Reforms", rather than as a temporary COVID-19 countermeasure.

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## 2020 Consolidated Financial Forecast

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(Billions of yen)	2020	2019	Y-o-Y change	
			Amount	%
<b>Net sales</b>	<b>355.0</b>	<b>347.5</b>	<b>7.4</b>	<b>2.2</b>
<b>Core operating income</b> % of net sales	<b>30.5</b> 8.6	<b>30.0</b> 8.6	<b>0.4</b>	<b>1.5</b>
<b>Operating profit</b> % of net sales	<b>39.5</b> 11.1	<b>29.8</b> 8.6	<b>9.6</b>	<b>32.4</b>
<b>Profit for the period attributable to owners of parent</b>	<b>27.0</b>	<b>20.5</b>	<b>6.4</b>	<b>31.3</b>
<b>EPS (Yen)</b>	<b>92.88</b>	<b>70.72</b>	<b>22.16</b>	<b>31.3</b>

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I would like to explain the outlook for full year consolidated financial results for 2020.

Regarding our annual financial forecasts, the impact of COVID-19 on our business operations may fluctuate greatly depending on trends in the spread of the infection both in Japan and overseas and economic trends, and we recognize that the future outlook is highly uncertain. In some cases, we also need to invest additional costs to revitalize the market.

In addition, as stated on July 31, the Company has left its earnings forecast as revised on February 28, due to aggressive marketing investment, particularly in the oral care field, and the possibility of additional investment.

The Company will promptly disclose any revisions to its earnings forecasts, as a result of changes in the business environment and other factors in the future.

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## Forecast Sales to External Customers by Segment **LION**

(Billions of yen)	Sales to External Customers			
	2020 (Initial forecast)	2020 (Aug 5. revision)	Change	
			Amount	%
Consumer Products	225.0	229.0	4.0	1.8
Industrial Products	33.5	32.0	(1.5)	(4.5)
Overseas	93.5	91.0	(2.5)	(2.7)
Other	3.0	3.0	0.0	0.0
Consolidated Total	355.0	355.0	0.0	0.0

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Net sales forecasts by business segment have been revised as shown in the table below, taking into account the trends up to the second quarter and the forecasts for the second half of the year.

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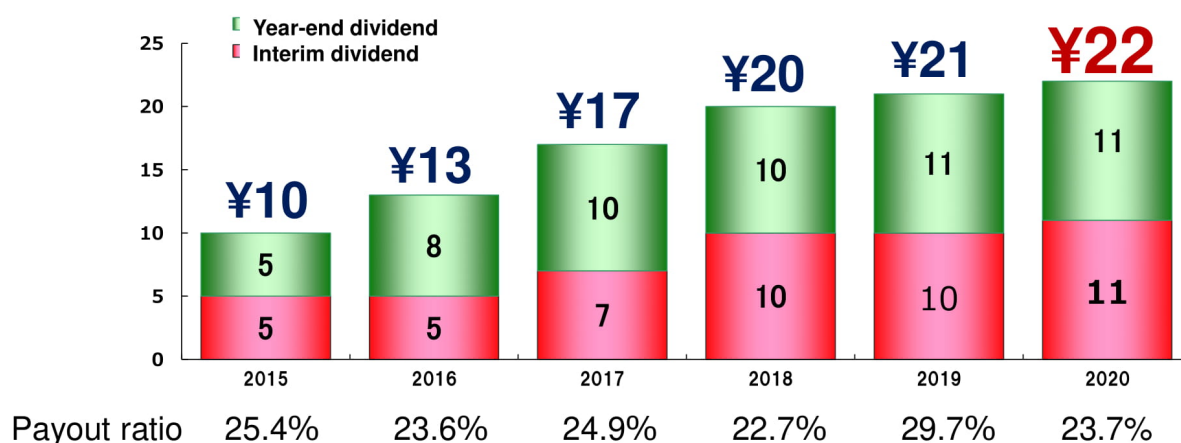
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## Increased dividends for five consecutive years

Per-share dividend of ¥22 per share, up ¥1 YoY, planned for 2020



### Basic dividend policy:

Return profits to shareholders on a continuous and stable basis

(Consolidated payout ratio target: 30%)

With regard to shareholder returns, based on our basic policy of providing continuous and stable dividends, we plan to increase the dividend for the current fiscal year by JPY1 per share to JPY22 per share, the fifth consecutive fiscal year of higher dividends, as we announced at the beginning of the year.

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## The Next Medium-Term Management Plan **LION**

- 2020 is the final year of the LIVE Plan, and we planned to launch the next medium-term management plan in 2021. However, because the outlook for the business environment is unclear due to the novel coronavirus pandemic, we will formulate a single-year plan for 2021 and start the management plan from 2022.
- We plan to publish our vision for the future and basic approach going forward in February 2021.

Finally, I would like to talk about the next medium-term management plan.

This fiscal year is the final year of the three-year LIVE Plan, and we originally planned to launch the next medium-term management plan in FY2021.

However, given that the business climate is uncertain due to the impact of COVID-19, we believe it is not reasonable to design business plans for the next three years with precise figures. Accordingly, we will formulate a single-year plan for 2021, and the next medium-term management plan will be launched in 2022.

However, we intend to present our vision for the future and our basic philosophy at the time of our financial results briefing in February 2021.

This concludes my explanation. Thank you very much.

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## Question & Answer

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Q: In the first half of the year, you recorded net sales of ¥1.1 billion and core operating income of ¥3.8 billion. Why has the full-year forecast remained unchanged?

A: Over the past six months, I think we have basically grasped the positive factors and negative factors of the COVID-19 pandemic. Nevertheless, the scale of the impact of the negative factors in particular, such as future economic slowdown or strengthened restrictions on activities abroad, cannot be fully forecast at this point. As such, we have left the forecasts we made on February 28, 2020 unchanged. In the event of the actualization of the risks described above, the Company will strive to secure the top line, making additional investment in marketing and competition-related expenses. There is a possibility that we will do this on a larger scale than ever.

Q: Could you explain why the oral care market is slowing down as a result of the COVID-19 pandemic?

A: Demand for our daily necessities is relatively insensitive to economic fluctuations. For example, toothpaste will run out as it is used, but consumers can control the replacement span for toothbrushes, causing changes in demand. We believe that the slightly sluggish demand for toothbrushes is due to such factors. However, oral care as a whole grew approximately 2.6% compared to the previous fiscal year, so we believe that we can achieve this level at least of growth in the second half of the year as well.

Q: At the first quarter briefing, you mentioned bulk purchasing demand and stocks of products that consumers have in their homes. In yen terms, how large do you estimate the stocks in homes were in the second quarter?

A: Just as with the last-minute demand surge prior to the consumption tax hike and ensuing recoil, it is difficult to accurately grasp the figures in each field. We have not been able to grasp a specific total figure. However, such bulk buying demand was highest in February and continued until the first half of April. Then, a major recoil was seen in May, having a lasting effect into June, but demand nearly recovered by July.

Q: Sales in fabric care fell considerably in the second quarter. Was this due to competition in the domestic fabric care market, lower prices, or a decline in consumer sentiment due to COVID-19? What is your analysis?

A: At present, I think that the decline in the second quarter was mainly due to the recoil from bulk buying in the first quarter, but we have not grasped whether it was entirely due to the recoil, or whether there was a slight reduction in demand. As for our position in the market, we achieved growth in excess of the market in the first quarter, but below the market in the second quarter, resulting in growth on level with the market for the first six months. Depending on the timing of the launch of each company's new products, the results may be either higher or lower when viewed on a quarterly basis. We therefore believe that these results are more appropriately evaluated on a semi-annual basis.

Q: Please tell us about year-on-year sales growth by country in the Overseas Business. Sales of laundry detergents declined in Thailand and Malaysia. Will this trend continue in the latter half of the year?

A: In the Chinese market, which we are focusing on, net sales to external customers grew by more than 30%, and we expect this strong performance to continue in the second half of the year. In South Korea,

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the impact of the worsening business environment began in July last year, so it had not yet worsened in the first half of the year, making it a negative factor in year-on-year comparison, but sales fell only slightly below the previous year's level due in part to growth in demand for hand soaps. In that sense, there will be no major negative factor in year-on-year comparison in the second half, so we expect an increase in profit due to strong performance in hand soaps.

In Malaysia and Thailand, sales decreased significantly, since the mainstay of our business is laundry detergents, the overall market for which has been difficult. As for the outlook for Southeast Asia, it depends on how long activity restrictions continue, but at the moment we expect performance on par with the first half of the year.

Q: In addition to the activity restrictions caused by COVID-19, is there any possibility of price pressure by competitors or a shift toward low-end products?

A: I think there is. However, our share of laundry detergents is not declining in Malaysia, for example. We have the largest share of the laundry detergent market in Malaysia, and we have maintained this position and have kept almost the same level of market share since last year.

Q: Could you explain the factors behind the significant sales growth in China?

A: Hand soaps saw extremely strong growth, as in other countries. The growth of oral care continues to be strong, and hand soaps were added to this. By channel, the share of online sales grew from 56% last year to 62% this year, and the growth rate was 1.7 times that of the previous year.

Q: Overseas hand soap markets are expanding. What kind of strategy are you thinking about in the long term?

A: We believe there is no company that has been able to respond to the full needs of the market. For example, the market has doubled in Thailand. If there were more supply volume, however, I think that we could grow the market more. This is true not only for us, but for other companies as well. We will continue to expand our hand soap production lines in Thailand and work to capture this demand, not only in the second half of the year, but also in the future.

This hygiene-related product business is an extremely important chance for us, and it is also an area of great responsibility for us as a supplier of necessary products. From the second half of the year onward, we intend to focus our efforts even more on these issues.

Q: You said that you will not announce a medium-term plan for the next fiscal year. How do you position 2021?

A: Given the current high level of uncertainty, we do not want to announce a three-year business plan like a normal medium-term business plan. However, we plan to announce our strategic approach, including our strategies to strengthen specific areas, looking forward to three years from now, as we will begin efforts under this approach next year.

Q: In terms of the sense of speed, can I understand that you are keeping up with other companies in overseas marketing of hygiene-related products?

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A: I think it is an advantage for us that we already have production bases centered on hand soaps in South Korea and Thailand. We will work to expand these even more rapidly.

Q: Looking at the forecast of change factors in core operating income, why did you revise the total cost reduction downward from the year's initial estimate of ¥1.5 billion to ¥1 billion?

A: Our main cost reduction measures are R&D activities aimed at improving efficiency in composition and the streamlining of processes. These are efforts that progress through repeated experiments and test production, so working from home and restraints on activities during Japan's declared state of emergency resulted in delays in some areas. We expect to be able to recover from these delays from the third quarter onward, but the cost reduction initially anticipated in the second half of the year may be slightly negatively affected, so we lowered the forecast.

Q: You said that the effects of stocks of products in homes had generally improved by around July. Can we understand that the effects in all categories, in general, have disappeared?

A: I think that the effects of stocks in homes almost disappeared in all categories by July. However, demand in some areas, such as toothbrushes, has not fully recovered. We think that this may be not the result of the reactionary decline following the increase in stocks in homes, but rather a decline in demand itself.

Q: You said that competition-related expenses may increase in the second half of the year. Is this due to measures to bolster flagging areas, like toothbrushes?

A: Yes. We think that we have to spend on competition-related expenses to secure market share in areas where demand is weak, such as oral care.

Q: You revised your raw material price assumptions. Did you include some extra leeway in the new forecasts?

A: There is a little leeway, but not much. Its impact on profit is less than ¥500 million.

Q: Why are laundry detergent markets in Southeast Asia shrinking?

A: In Japan, we expect that people will continue to wash their clothes no matter how bad the economy is. However, it seems that people with very low incomes in Southeast Asia are refraining from doing the laundry or shifting to cheaper detergents.

Q: Do you think that the current strong sales of hand soaps will continue next year?

A: We think that, unlike with SARS or MERS, demand for hygiene-related products, particularly hand soaps, will remain firm from the next fiscal year onward. However, demand may be a little uneven from country to country. We expect demand to remain strong in Japan and Northeast Asia. However, in Southeast Asia, as with the decline in demand for laundry detergents, if the economy weakens, demand for hand soaps could return to the previous normal level.

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Q: It seems like competition-related expenses were higher in proportion to sales in the second quarter than the first. Could you explain that?

A: Competition-related expenses from April to June were level year on year. In Japan, we realized an overall savings. Overseas, however, the Chinese Business is doing very well, and there was the 618 event, as well. Competition-related expenses there increased along with the increase in sales. They are not increasing excessively at all.

Q: Could you tell us in more detail why profitability improvement measures in Malaysia did not make much progress?

A: In Malaysia, the main focus of our plans was not cost reductions, but increasing sales through marketing. We are not losing market share, but our growth in Southeast Asia is showing signs of a slight slowdown from last year. In order to once again push back to a 5% growth rate, we believe it is necessary to gradually shift to management that emphasizes the top line. We were planning Lion Fair promotions at major retail chains throughout the year, but because of restrictions on the activities of retail outlets due to COVID-19, we were unable to implement most of the promotional efforts we had planned.

In addition, in Malaysia, we planned to revive growth in laundry detergents, in which we hold the leading market position, by reformulating our branding strategies. We also planned to reinforce oral care by introducing the general-purpose brand of *SYSTEMA* and to implement oral care educational activities, but we were unable to put these plans into action.

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