Lion Corporation

Financial Results for the Fiscal Year Ended December 31, 2021

February 14, 2022

Event Summary

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[Participants]	82
[Number of Speakers]	5

Masazumi Kikukawa	Representative Director, President, Executive Officer
Takeo Sakakibara	Director, Senior Executive Officer
Masahide Arai	Director of Corporate Planning Department
Yoshitada Ishii	Deputy Director of Finance Department
Keita Tanimoto	Director of Investor Relations Officer Corporate Planning Department

Presentation

Tanimoto: Let me introduce today's speakers: Masazumi Kikukawa, Representative Director, President, Executive Officer; Takeo Sakakibara, Director, Senior Executive Officer; Masahide Arai, Director of Corporate Planning Department; and Yoshitada Ishii, Deputy Director of Finance Department. I am Tanimoto, Director of Investor Relations Office, Corporate Planning Department, and I will serve as the moderator.

Mr. Kikukawa will now explain based on the financial results presentation materials for the fiscal year ended December 31, 2021, and then we will move on to the question-and-answer session. The entire briefing is scheduled to last for approximately one hour.

The materials used in today's presentation can be found on our website, so please take a look at them as well.

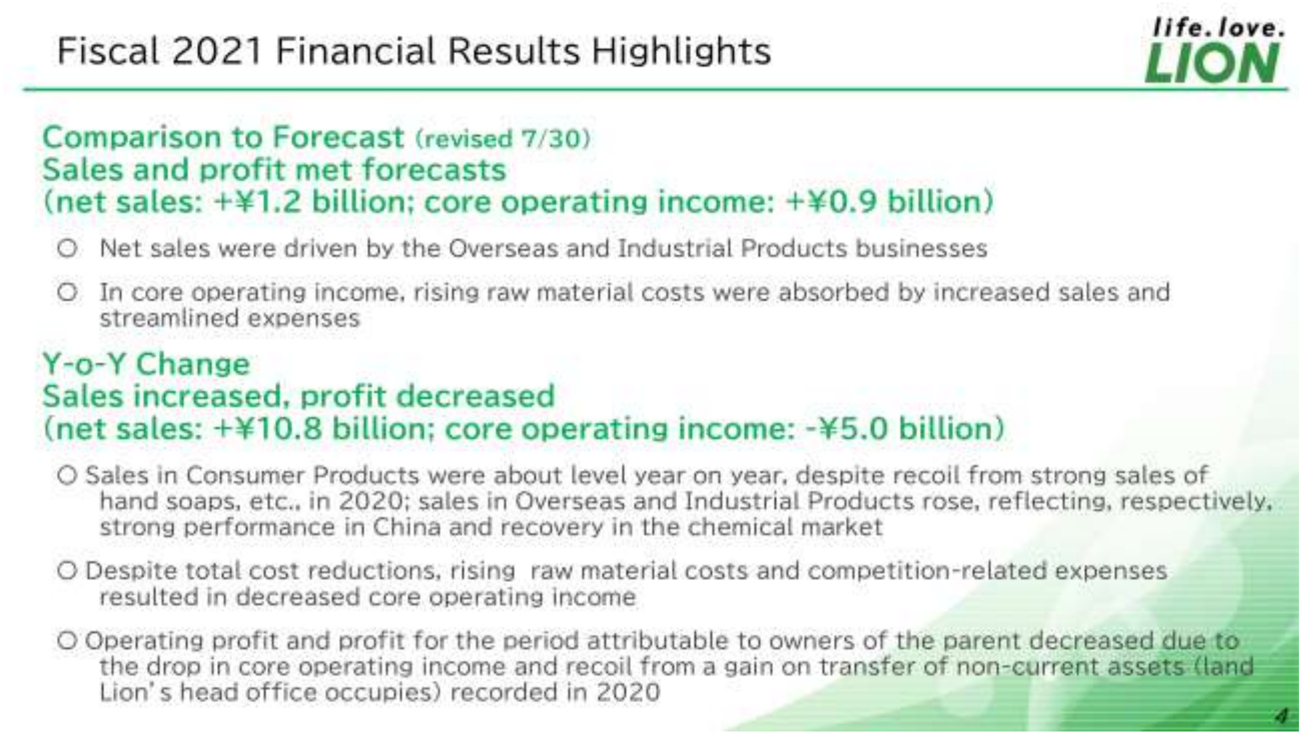
Before we begin the briefing, I would like you to note the following in advance. This presentation may contain forward-looking statements based on current expectations, all of which are subject to risks and uncertainties. Therefore, please note that the actual results may differ from the forecasts.

In addition, in order to enhance the disclosure of information, we will post a video of the briefing on our website from this time. Please note that the company name, your name, and voice of the person asking the question will be uploaded as is.

Now we will begin the presentation. President Kikukawa, please begin.

Kikukawa: Thank you very much for taking time out of your busy schedule to participate in our financial results briefing today. We would also like to thank you for your continued support of our IR activities.

Today's explanation is based on the three points you see. Let's start the explanation step by step.



First, I would like to talk about the business results for FY2021.

In FY2021, we achieved both net sales and profits compared to the announced figures revised on July 30 last year.

On the other hand, sales increased and profits decreased on a YoY basis. Sales in Consumer Products increased as a reactionary decline in sales of hand soap was offset by sales of antipyretic analgesics and other core products. Sales in overseas increased, mainly in China and sales in industrial products also increased.

Although we promoted total cost reduction, core operating income decreased due to the increase in raw material prices and competition costs.

Operating profit and profit for the period attributable to owners of the parent company decreased due to the decrease in core operating income and the absence of the gain on transfer of fixed assets recorded in the year before last.

This slide summarizes the trends in the domestic consumer products market and major overseas markets that we are entering.

In Japan, the total of 38 home product markets in which we participate has been affected by a decline in unit sales due to a reactionary drop in sales of hand soaps and household cleaners, resulting in an overall decrease of 95% in value compared to the previous year. We believe the overall market is returning to its pre-coronavirus state of moderate growth.

The details of each item are as shown and will not be explained.

Overseas, hand soap sales in Southeast Asia and Northeast Asia are down from the previous year due to a rebound from last year, but the market is still expanding in each country compared to 2019 due to an increase in the frequency of hand washing.

With regard to laundry detergents, the situation remains difficult, as they continue to fall short of the previous year's level due to the impact of sluggish consumption caused by the spread of infection.

Fiscal 2021 Consolidated Financial Results

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Despite a Y-o-Y increase in sales, profit fell Y-o-Y due largely to rises in raw material prices and competition-related expenses, but exceeded forecasts

(Billions of yen)	2021	2020	Y-o-Y change		Deviation from revised forecast (% deviation)
			Amount	%	
Net sales	366.2	355.3	10.8	3.1 (1.9*5)	1.2 (0.3)
Core operating income*1 % of net sales	30.9 8.4	35.9 10.1	(5.0)	(14.0)	0.9 (3.1)
Operating profit % of net sales	31.1 8.5	44.0 12.4	(12.8)	(29.3)	1.1 (3.9)
Profit for the period attributable to owners of parent	23.7	29.8	(6.1)	(20.5)	2.2 (10.5)
EPS (Yen)	81.73	102.75	(21.02)	(20.5)	7.78 (10.5)
EBITDA*2	45.1	47.6	(2.4)	(5.2)	–
EBITDA margin (%) *3	12.3	13.4		(1.1)PP	–
ROIC(%)*4	8.8	10.7		(1.9)PP	–
ROE(%)	9.8	13.6		(3.8)PP	–

Notes: 1. Core operating income is an earnings indicator the Company uses to measure regular business performance by subtracting general and administrative expenses from gross profit, selling
2. EBITDA: An indicator of profitability on a cash basis calculated as the sum of core operating income and depreciation and amortization
3. EBITDA margin: The ratio of EBITDA to consolidated net sales
4. ROIC is an indicator calculated from net operating profit after tax (NOPAT) divided by the average invested capital (total equity plus interest bearing liabilities) during the period, and measures the efficiency and profitability of the invested equity
5. Y-o-Y change at constant currency excluding exchange rate fluctuations

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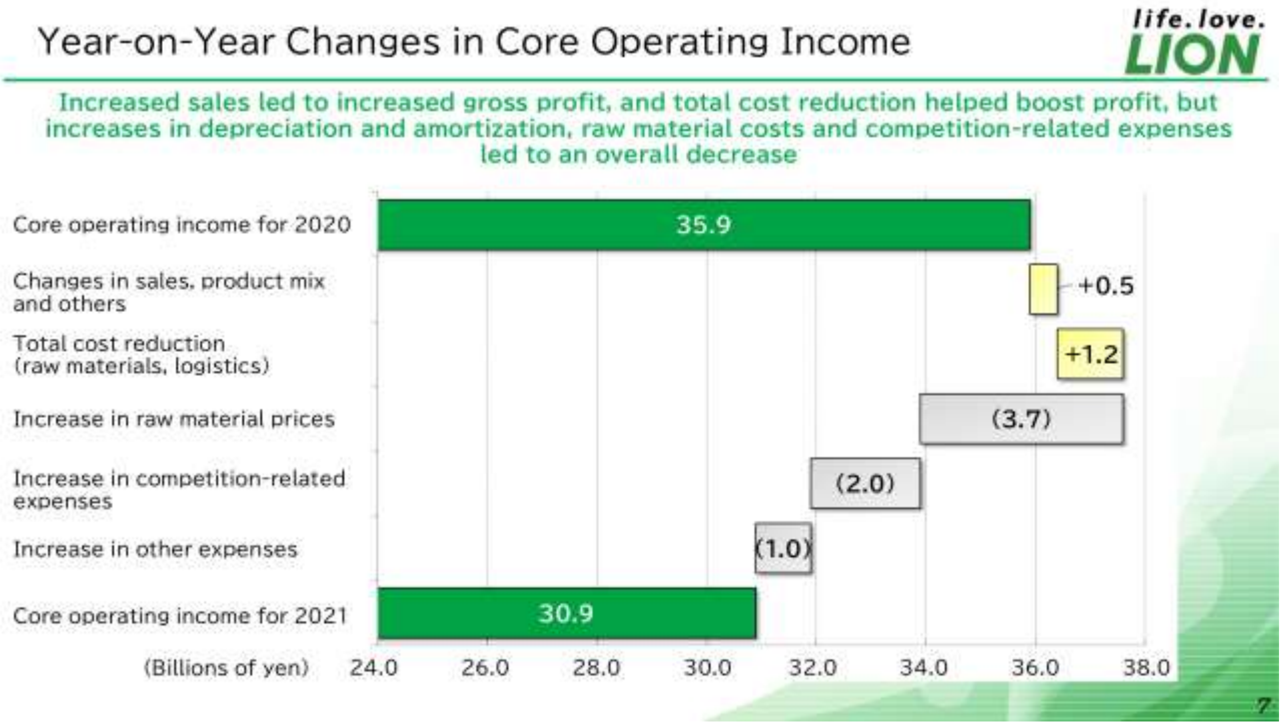
This is our consolidated financial results.

Net sales totaled JPY366.2 billion, up 3.1% YoY, or JPY10.88 billion. Excluding the impact of foreign exchange rates, YoY change at constant currency is 1.9%.

Core operating income decreased by JPY5 billion to JPY30.92 billion, and operating profit decreased by JPY12.89 billion due to the absence of the gain on the transfer of land in the year before last.

EBITDA, which has been used as a cash-based earnings indicator for the investment front since the current fiscal year, was JPY45.17 billion, a decrease of JPY2.49 billion YoY.



This shows the factors affecting changes in core operating income.

First of all, there was JPY1.7 billion as a factor to increase profit. As for the impact of the changes in sales, product mix and others, gross profit increased due to the increase in sales, but profit decreased due to changes in the segment composition and an increase in depreciation, resulting in JPY0.5 billion after deduction.

Total cost reduction was JPY1.2 billion, mainly due to cost reduction.

On the other hand, factors contributing to the decrease in profit totaled JPY6.7 billion. This was due to the increase in raw material prices both in Japan and overseas, as well as competitive costs such as sales promotion expenses and increased R&D expenses.

As a result, core operating income decreased by JPY5 billion YoY.

Results by Business Segment

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Industrial Products saw increases in sales and profit, due to increases in the chemical field, but Consumer Products and Overseas saw increased sales but decreased profit due partly to higher raw material costs

(Billions of yen)	Net sales 2021	Net sales 2020	Y-o-Y change Amount	Y-o-Y change %	Segment profit (Core operating income) 2021, %	Y-o-Y change Amount	Y-o-Y change %
Consumer Products	247.0	245.4	1.5	0.6	19.0 (7.7)	(5.6)	(22.8)
	229.5	229.7	(0.1)	(0.1)			
Industrial Products	61.2	55.0	6.2	11.3	2.6 (4.3)	0.4	22.0
	34.7	31.5	3.2	10.2			
Overseas	109.2	101.6	7.6	7.5	6.0 (5.5)	(1.1)	(15.9)
	98.7	91.2	7.5	8.2			
Other	27.8	34.8	(6.9)	(19.9)	2.1 (7.7)	(0.1)	(7.3)
	3.1	2.8	0.3	12.9			
Adjustment	(79.2)	(81.6)	2.4	-	(1.0)	1.4	-
	(0.0)	0.0	(0.0)	-			
Consolidated Total	366.2	355.3	10.8	3.1	30.9 (8.4)	(5.0)	(14.0)

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

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This is results by business segment. For sales, the upper row shows net sales and the lower row shows external sales.

First, in the Consumer Products business, net sales increased YoY as a reactionary decline in sales of hygiene products was offset by sales of toothbrushes, fabric softeners, and antipyretic analgesics. Segment income decreased by 22.8% mainly due to a decrease in gross profit caused by a change in sales mix and higher costs.

Both sales and profits increased in the Industrial Products business. In the chemicals field, sales increased YoY due to a recovery in market conditions, particularly in the automotive industry. In the commercial cleaning products business, sales of sanitation-related products were strong, although sales of cleaning products for restaurants were sluggish. Segment income increased mainly due to an increase in gross profit resulting from higher sales.

Overall, the overseas business posted higher sales and lower profits. The business results by region will be explained in detail later.

Consumer Products Business Net Sales by Product Category

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Sales increased, except in beauty care, which suffered Y-o-Y recoil

(Billions of yen)	Net sales			
	2021	2020	Y-o-Y change	
			Amount	%
Oral Care	69.4	66.4	3.0	4.5
Beauty Care	24.7	31.4	(6.7)	(21.5)
Fabric Care	60.6	59.1	1.5	2.6
Living Care	25.1	24.0	1.0	4.5
Pharmaceutical	25.3	23.8	1.4	6.2
Other	41.7	40.5	1.2	3.0
Total	247.0	245.4	1.5	0.6

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Next, I will show you the net sales of the Consumer Products business by category.

In the oral care category, sales of mainstay products such as toothpaste, toothbrushes, and dental care products all increased YoY.

In the beauty care category, sales were significantly lower than the previous year due to a decrease in the number of hand soap units.

In the fabric care category, sales increased YoY due to growth in sales of fabric softener.

In the living care category, sales of cooking-related products decreased in reaction to last year’s sales, but sales of dishwashing and bath detergents increased YoY. In addition, new bathroom detergents contributed to the YoY increase.

In the pharmaceutical category, sales of the mainstay antipyretic analgesic increased due to demand for adverse reactions to vaccines and the effect of new products in the second half, resulting in an increase in sales and an overall increase in profit.

Overseas Business Results by Region

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Sales in Southeast Asia increased due to stronger sales promotion of laundry detergents, but profit decreased due to rise in raw material costs
Sales in Northeast Asia increased, driven by strong sales in China which continued to be strong due to strengthened sales promotion in e-commerce and live commerce

(Billions of yen)	Net sales				Core operating income			
	2021	2020	Y-o-Y change		2021	2020	Y-o-Y change	
			Amount	%			Amount	%
Southeast Asia	68.7	66.4	2.3	3.5	3.7	5.1	(1.3)	(26.3)
Northeast Asia	40.4	35.1	5.3	15.1	2.2	2.2	0.2	10.2
Total	109.2	101.6	7.6	7.5	6.0	7.1	(1.1)	(1.5)

*Y-o-Y change at constant currency excluding exchange rate fluctuations:
Southeast Asia: +1.3% (Thailand: +0.9%, Malaysia: +1.4%);
Northeast Asia: +6.3% (China*: +21.7%, South Korea: -4.7%); * Qingdao Lion
Total: +3.1%

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Next is the performance of overseas business by region.

In Southeast Asia, although still affected by sluggish consumption, overall sales increased by 3.5%, and YoY change at constant currency excluding exchange rate fluctuations was plus 1.3%.

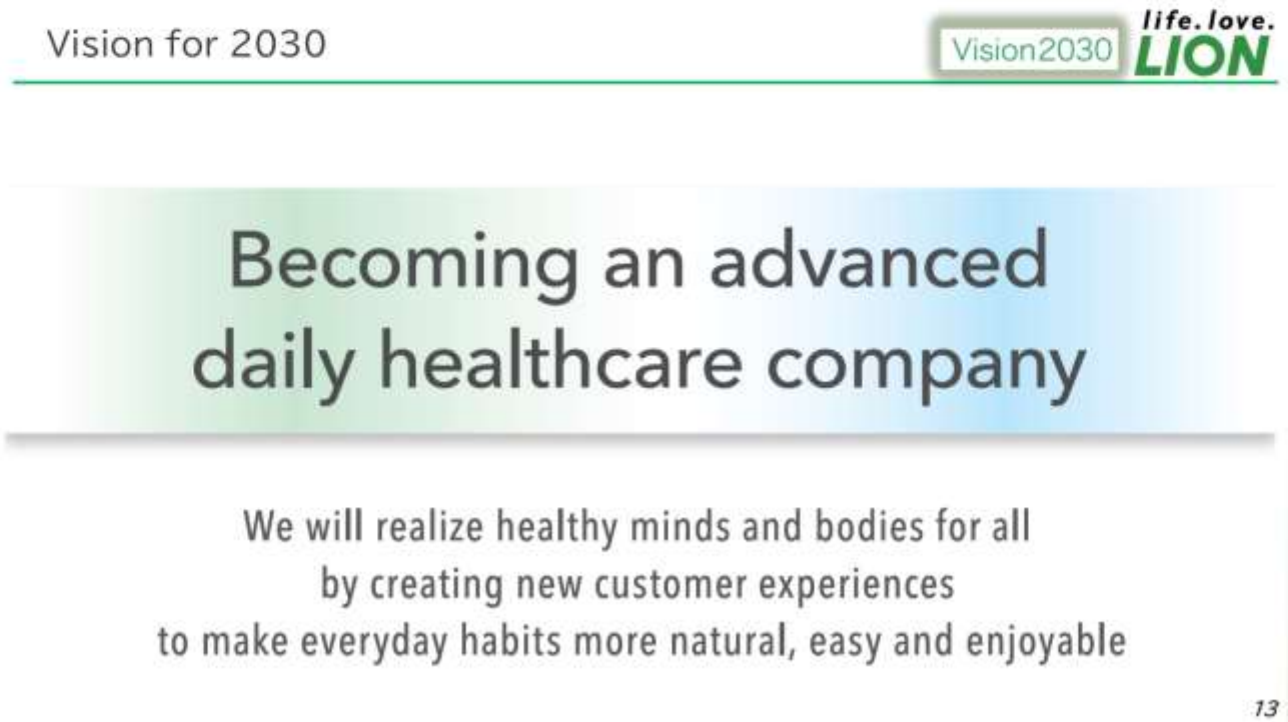
In Thailand, we strengthened sales promotion in rural areas, focusing on detergents, and in Malaysia, we renewed various detergents to appeal to anti-viruses and succeeded in securing exposure in stores. Core operating income, on the other hand, decreased due to the impact of rising raw material prices.

In Northeast Asia, there was an increase of 15.1% YoY, and YoY change at constant currency excluding exchange rate fluctuations was plus 6.3%. In China, where sales have continued to be strong due to the strengthening of sales promotions such as EC and live commerce, we secured sales growth of over 20% in the last fiscal year.

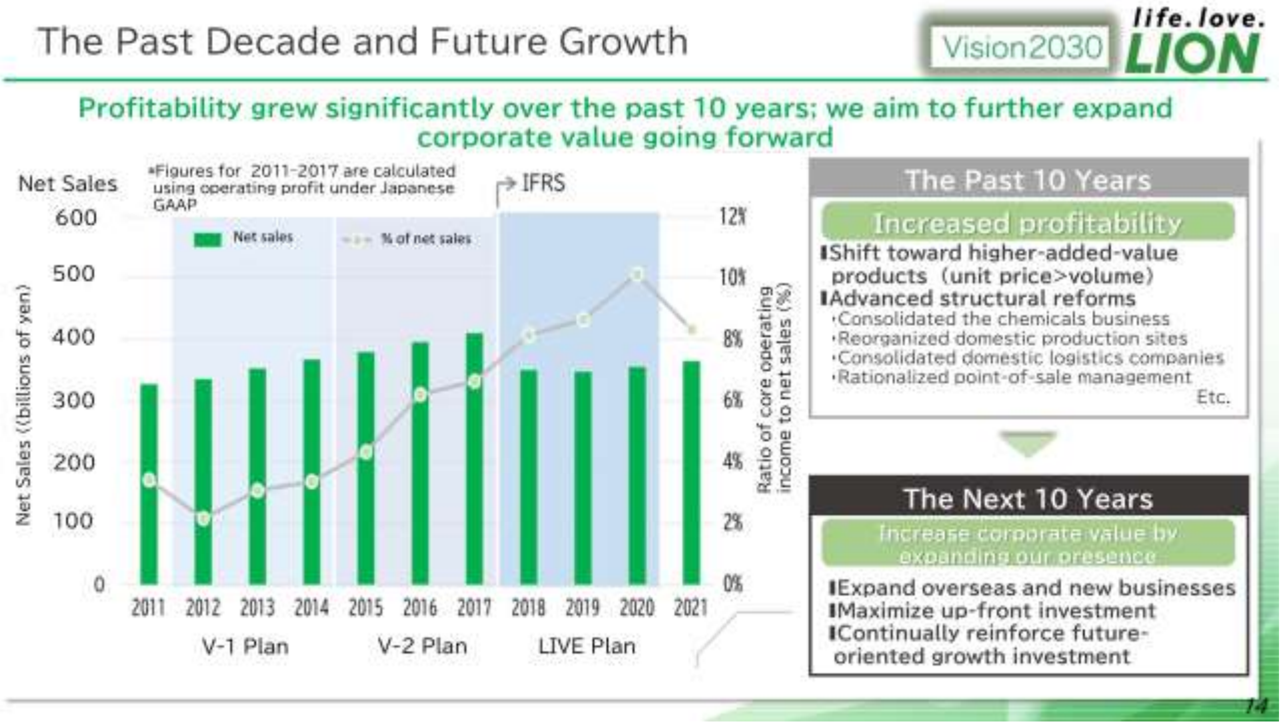
On the other hand, sales in South Korea decreased due to a reactionary decline in sales of hygiene products and, in addition to this, the impact of a shrinking market for laundry detergents.

I would now like to explain our medium- to long-term management plan for 2030.

We recognize the importance of fulfilling our social roles and responsibilities by further strengthening our management based on our purpose of "Make a difference in everyday lives by redesigning habits."



Our vision for 2030 is "Becoming an advanced daily healthcare company," and by evolving and developing healthcare that only Lion can provide, we will contribute to a sustainable society and aim to increase our corporate value.



For the past 10 years, we have been promoting structural reforms, such as adding more value to our products, strengthening our earnings base, and consolidating and eliminating affiliated companies, with the theme of improving profitability, which was a particular challenge for us.

On the other hand, we recognize that our social mission and significance have become even greater due to the impact of the new coronavirus infection last year.

For the next 10 years, we will continue to strengthen our investment for growth, accelerate our business growth, and aim to expand our corporate value.

Our management theme is to improve our market, economic, and social presence.

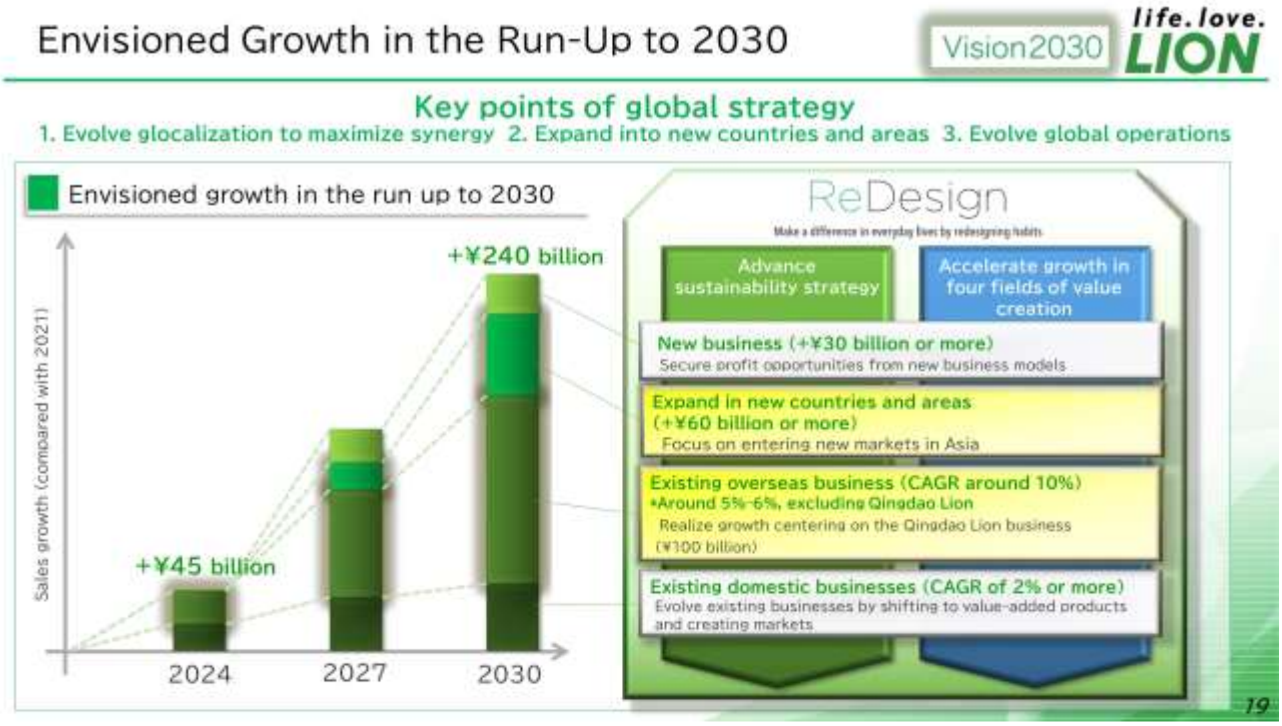
Specifically, we will expand this process of accelerating growth through aggressive investment, generating cash, and reinvesting and returning it. By doing this, we hope to create a spiral flow that will lead to the sustainable expansion of corporate value.

As indicators to evaluate the level of realization of this spiral and to make it greater, we will focus on sales growth rate and EBITDA expansion. At the same time, we will strengthen ROIC management and improve the efficiency of investment.

The overall picture of the strategy frame is shown here.

By doing so, we will target and enhance the economic value that you have seen through our contribution to a sustainable society by practicing the purpose driven concept of "Make a difference in everyday lives by redesigning habits," and aim to expand our corporate value.

From here, we will explain our specific design for business growth to JPY600 billion in 2030.The stacked graphs show the targets for performance growth by sector. As you can see, along with the steady growth of existing businesses in Japan, business growth through overseas and new businesses is an important point for us.

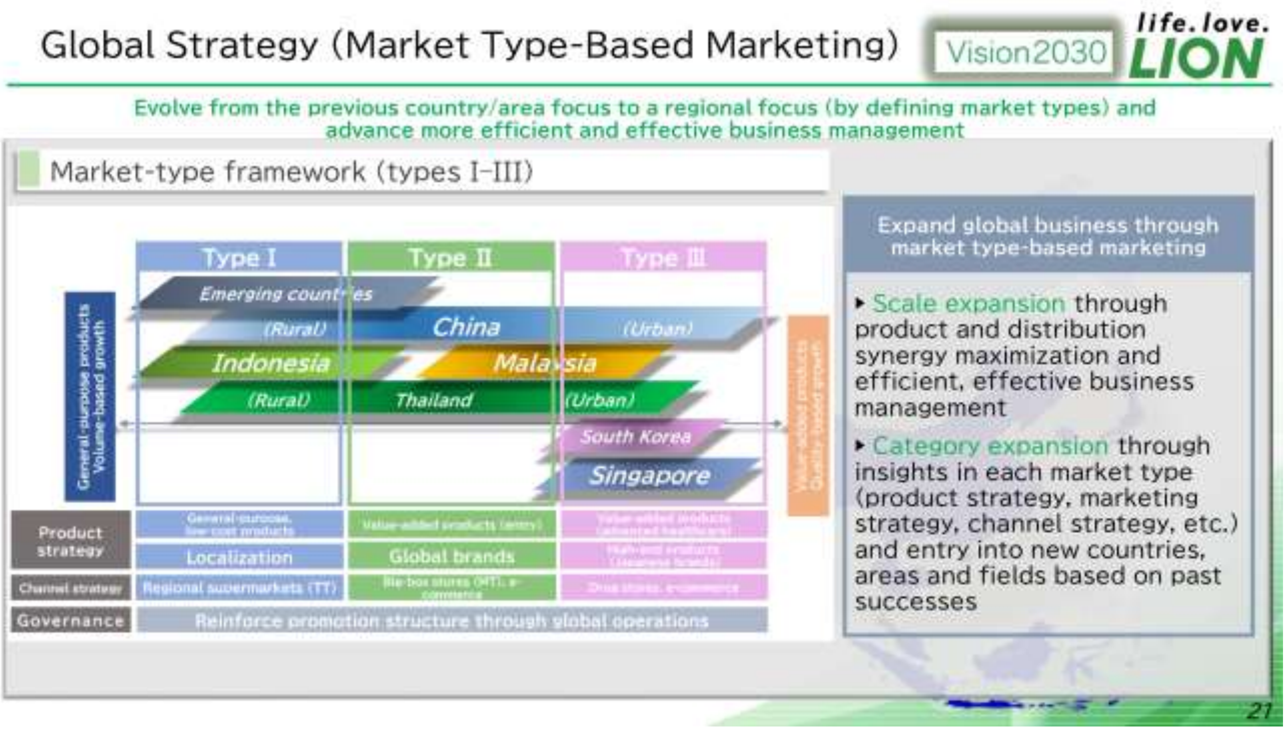


The most important point in this process is the expansion of overseas business. There are three key points: maximizing synergies by evolving the glocalization strategy, expanding the business of Qingdao Lion, and expanding into new countries and areas. Let me explain in detail in order.

One of the major concepts of our global strategy is the glocalization strategy. This has allowed us to enter new countries and expand our business to date, taking advantage of our detailed marketing that meets local needs on a country and area basis and our reliable quality as a Japanese manufacturer.

However, with the recent changes in the environment, such as the increasing similarity and commonality of lifestyles and needs across countries and regions, we believe that we need to evolve this business style one step further.

We would like to evolve our glocalization strategy to maximize synergies and promote efficient management by taking an optimal approach to each type of consumer by categorizing them across national borders according to their characteristics and trends, rather than by country as in the past.



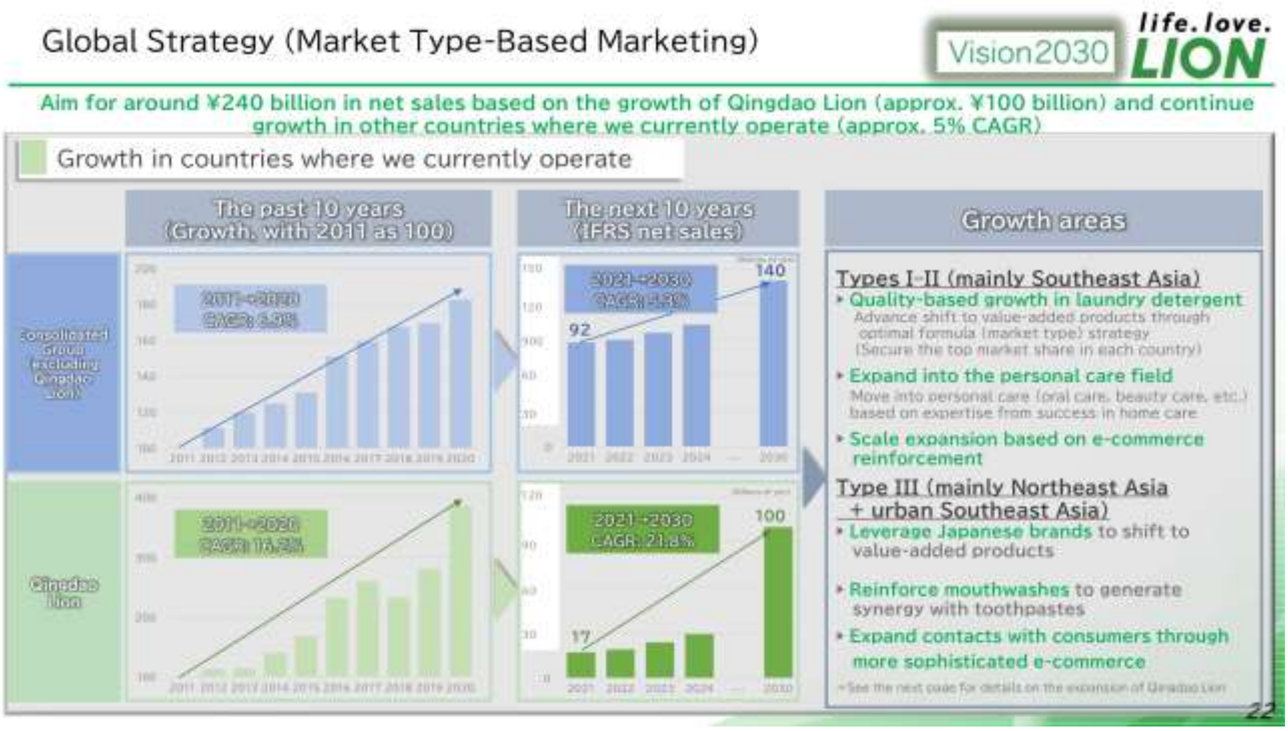
This is a representation of the typology marketing frame that we have already developed in practice.

The approach is to categorize countries and regions into three major types and implement strategies for each type. The three categories are based on GDP growth rates, income levels, and the characteristics and trends that have been identified through the glocalization strategy.

For example, in the Type I approach to countries and regions, we aim to achieve quantitative growth with general-purpose, low-priced products that meet local needs, while in the Type II approach, we seek to maximize product and distribution synergies through the development of global brands.

In addition, in Type III, we will strive to achieve qualitative growth through value-added products, such as the development of high-priced products with a focus on Japanese brands.

We believe that the knowledge and know-how accumulated through these strategies can be applied and developed for future expansion into new countries and areas, as well as for field expansion.



This is about growth in countries where we currently operate.

Overall, we are aiming for sales of JPY240 billion in 2030 at a CAGR level of 10%.

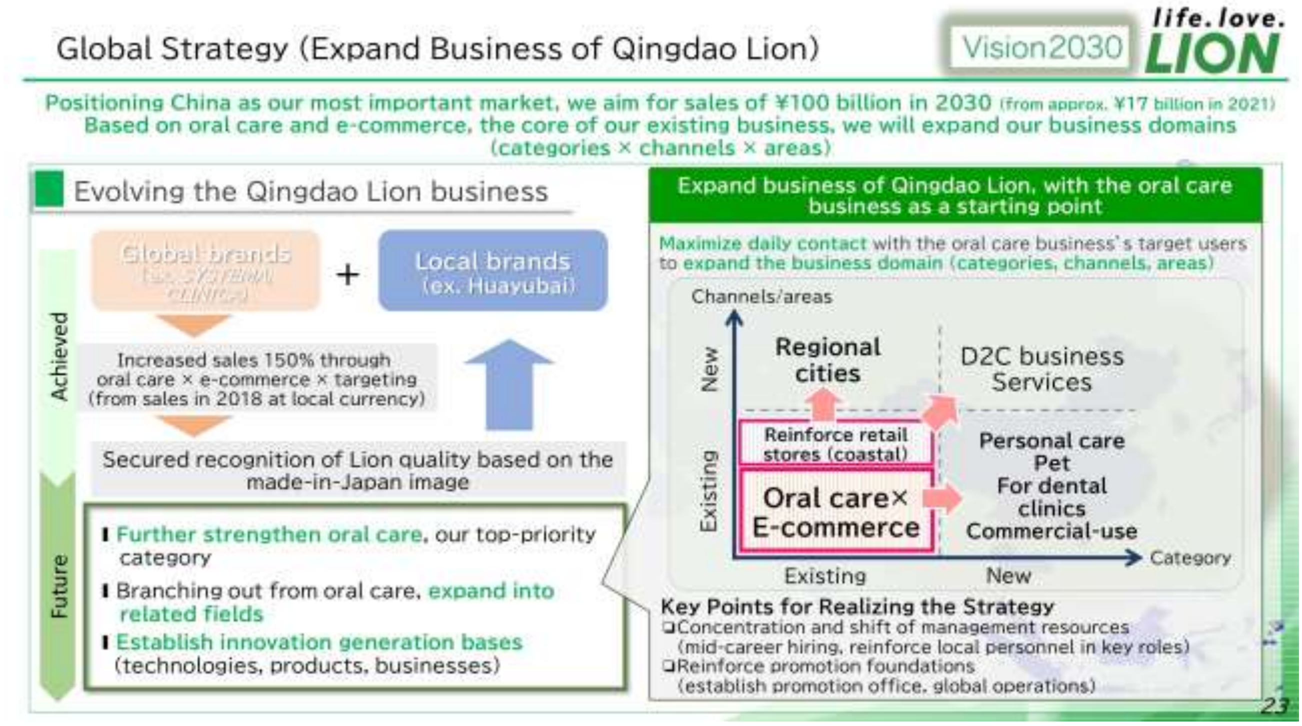
Regarding Qingdao Lion, we are aiming for growth of JPY100 billion in 2030. This is one of the major points of our global strategy, and I will explain it in detail later.

The other six consolidated companies have been growing at a CAGR of approximately 7% for the past 10 years.

Despite the current impact of coronavirus, we aim to achieve sales of JPY140 billion in 2030, excluding China, by growing at a CAGR of 5% over the 10 years from 2021.

In terms of the direction of growth by category, for Types I and II, we will aim to expand our market share through qualitative growth of laundry detergents. At the same time, we will aim to expand the scale of our business by expanding into the personal care field, mainly oral care, based on the successful know-how we have cultivated in the home care business, and by expanding our channels by strengthening EC.

For Type III, which is mainly in Northeast Asia and urban areas, we will continue to add value and aim for qualitative growth by strengthening mouthwash that generates synergy with toothpaste and expanding consumer contact points through sophisticated use of EC.



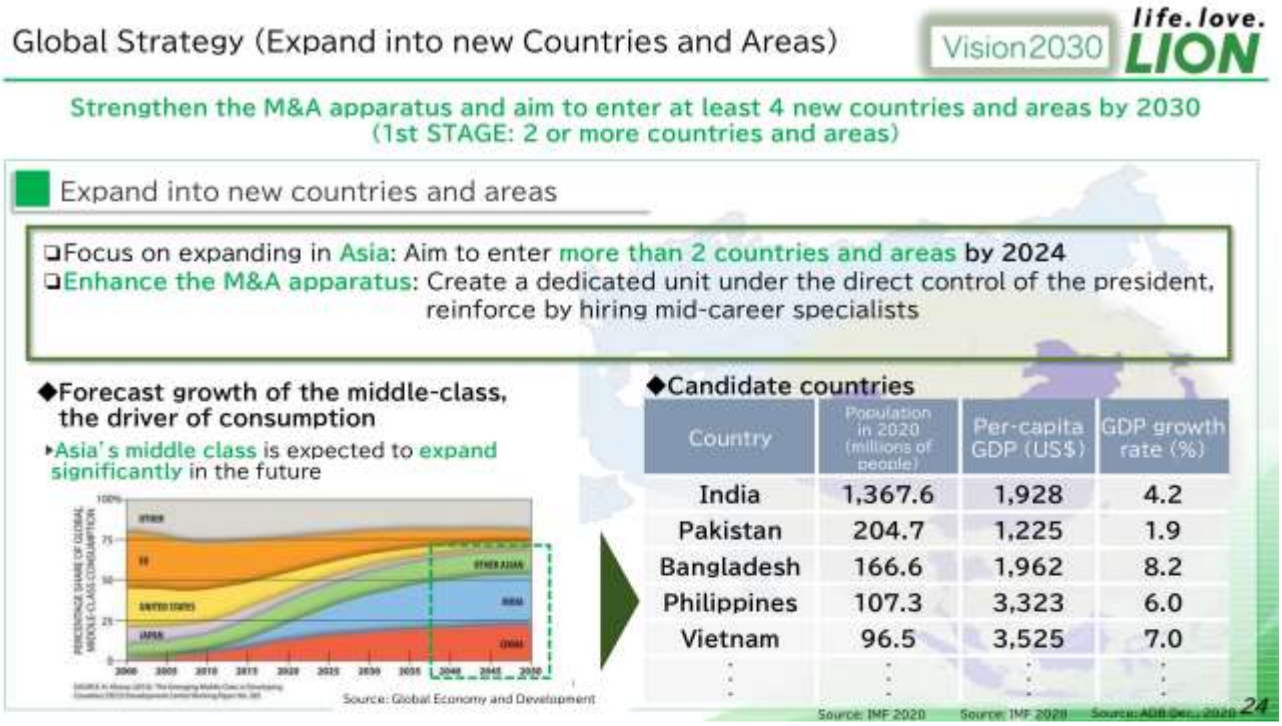
Next, I would like to explain the concept of the Qingdao Lion Project.

We have achieved a CAGR of 16% for the past 10 years by leveraging our global brands such as SYSTEMA, CLINICA, etc. mainly in the oral care business, and expanding them through brand image enhancement by selling Japanese quality and synergistic growth of local brands.

In the future, we will further accelerate this trend and expand our business domain, starting with the oral care business.

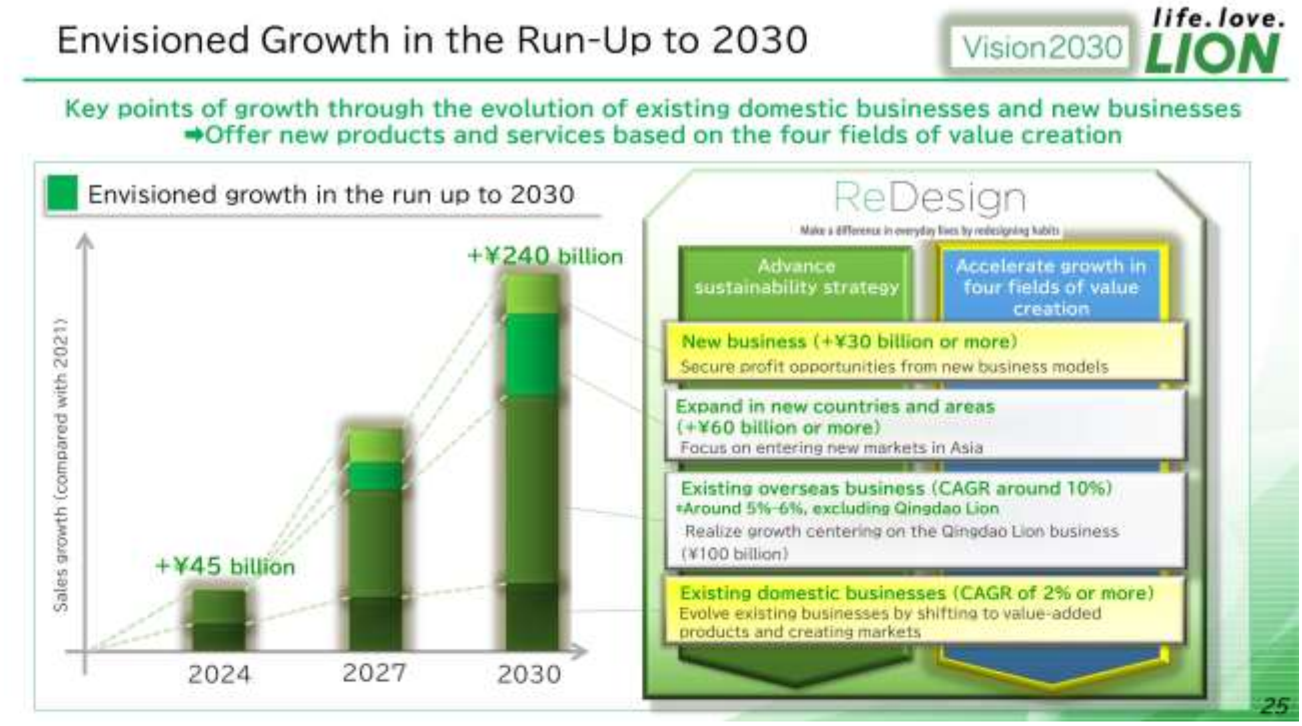
Specifically, we aim to expand into areas where we have not yet made inroads, such as the inland areas of China; to expand into fields such as dental clinics, pets, and professional use, which have an affinity with oral; and to expand by utilizing new channels such as D2C.

In order to achieve this goal, we are already focusing our management resources and reinforcing our promotion infrastructure, which will enable us to achieve a growth of JPY100 billion in 2030 with a CAGR of 22%.



Finally, the expansion of new countries and areas.

We are considering M&As mainly in Asia, where the composition of the middle class, which will be the core of consumption in the future, is expected to expand substantially. We will aim to enter more than four countries by 2030, and more than two countries during this medium-term plan. In order to achieve this goal, we have strengthened our promotion system by creating a dedicated organization under my direct control and appointing specialists from outside.

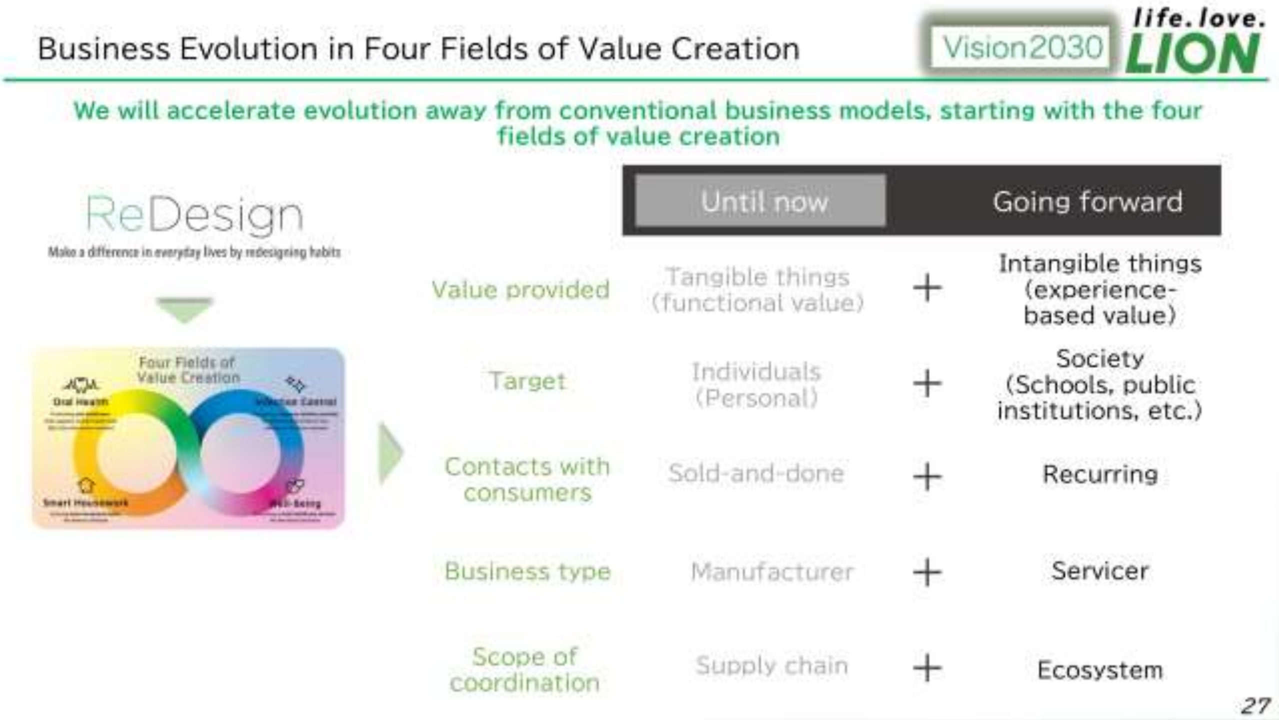


Next, regarding existing and new businesses in Japan, I would like to briefly explain the concept of providing new products and services based on the four key areas of value creation.

Amid growing awareness of and social needs for health and hygiene, we have set four areas of value to create as growth drivers in order to further evolve and develop healthcare and better habits that only Lion can provide. This has already been explained to you.

The aims and directions of each area of value creation are as shown here.

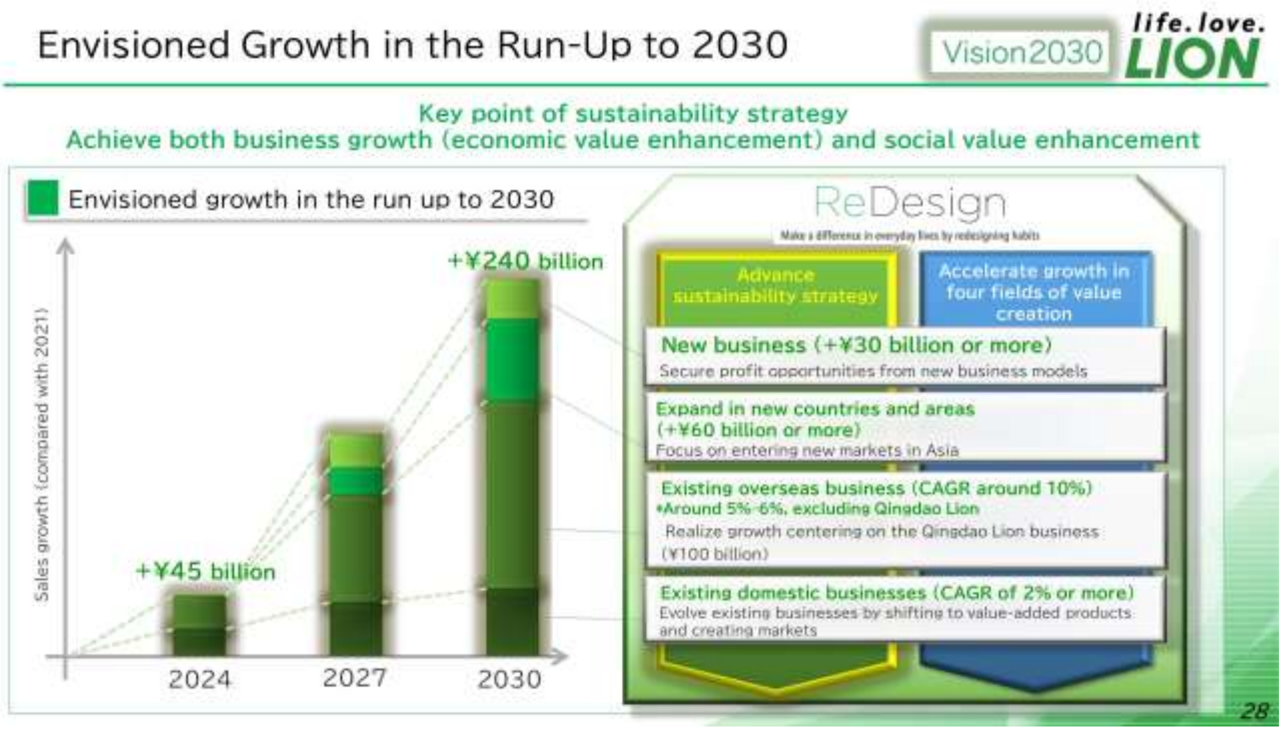
At present, we have appointed a responsible person in each area to accelerate the evolution of our business and the creation of new value in order to realize our vision.



In order to achieve new value creation originating from the four areas of value creation, it is necessary to evolve from the conventional business model.

In order to achieve this goal, we believe that these changes will be the foundation for the creation of new value, including the evolution of the value creation from products to services, the expansion of the scope of services to provide solutions to social issues, the expansion of consumer contact points by moving away from the sell-through model, the evolution of the business model from manufacturer to total healthcare service provider, and the formation of an ecosystem involving industry, government, academia, medicine, and the private sector. We believe that these changes will form the basis for the creation of new value.

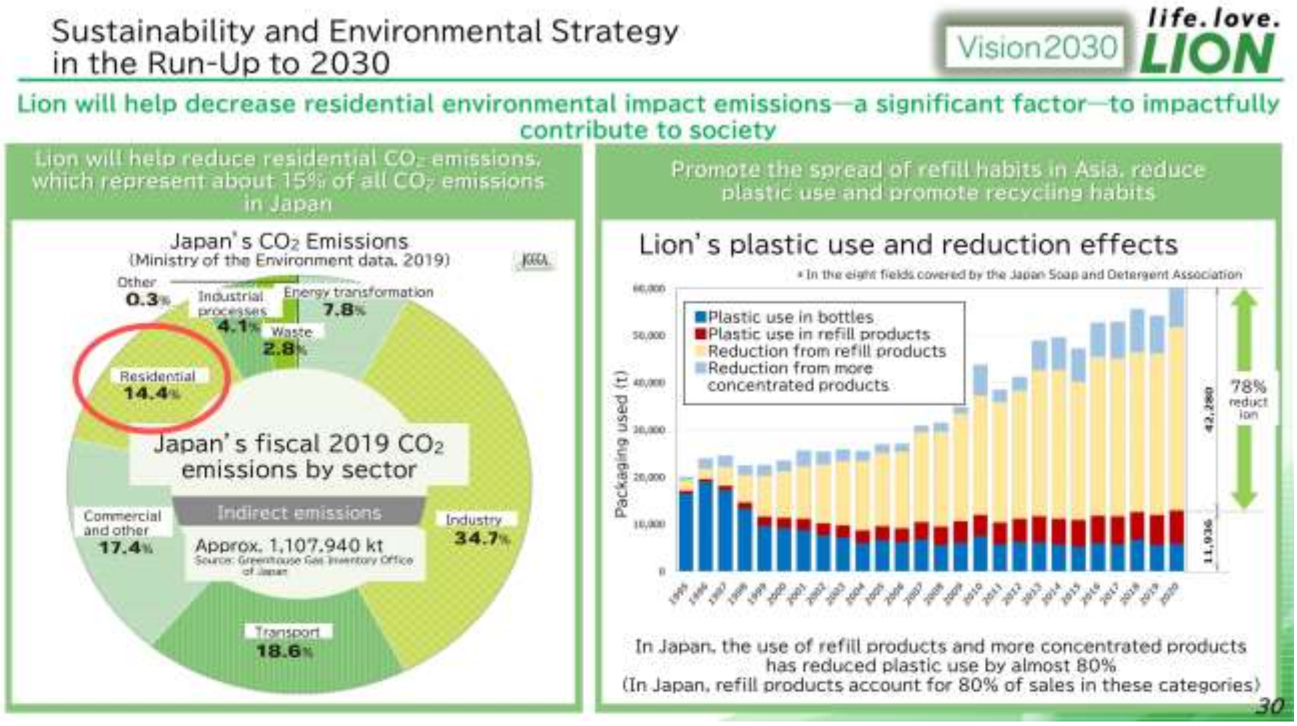
I'll talk about the first stage later, the first medium-term management plan in the medium-term management plan. In this part of the presentation, we will also introduce some concrete examples of such business evolution.



Next, I would like to explain our sustainability strategy.

Inheriting the founding spirit of "Contributing to society through our business," we have been making long-term and continuous efforts to address not only economic development but also global environmental and social issues.

Going forward, the goals we aim for in 2050 are to realize carbon negative as a decarbonized society and to continue to use plastics as a resource-recycling society. We will continue to contribute to the environment not only in Japan but also in other Asian countries by creating "environmentally friendly habits" together with consumers, starting with our purpose.



I will explain this graph.

First, on the left is Japan's total CO2 emissions in 2019, broken down by sector.

As shown in red, CO2 emitted by the residential sector accounts for about 15% of Japan's total CO2 emissions, amounting to 160 million tons. There are not many companies that are working to reduce CO2 emissions from their households. We believe that the creation of eco-habits is a unique role that companies like ours, which have contact with consumers, must play.

Lion will continue to promote environmentally friendly habits at home through a variety of measures, including the provision of water-saving products.

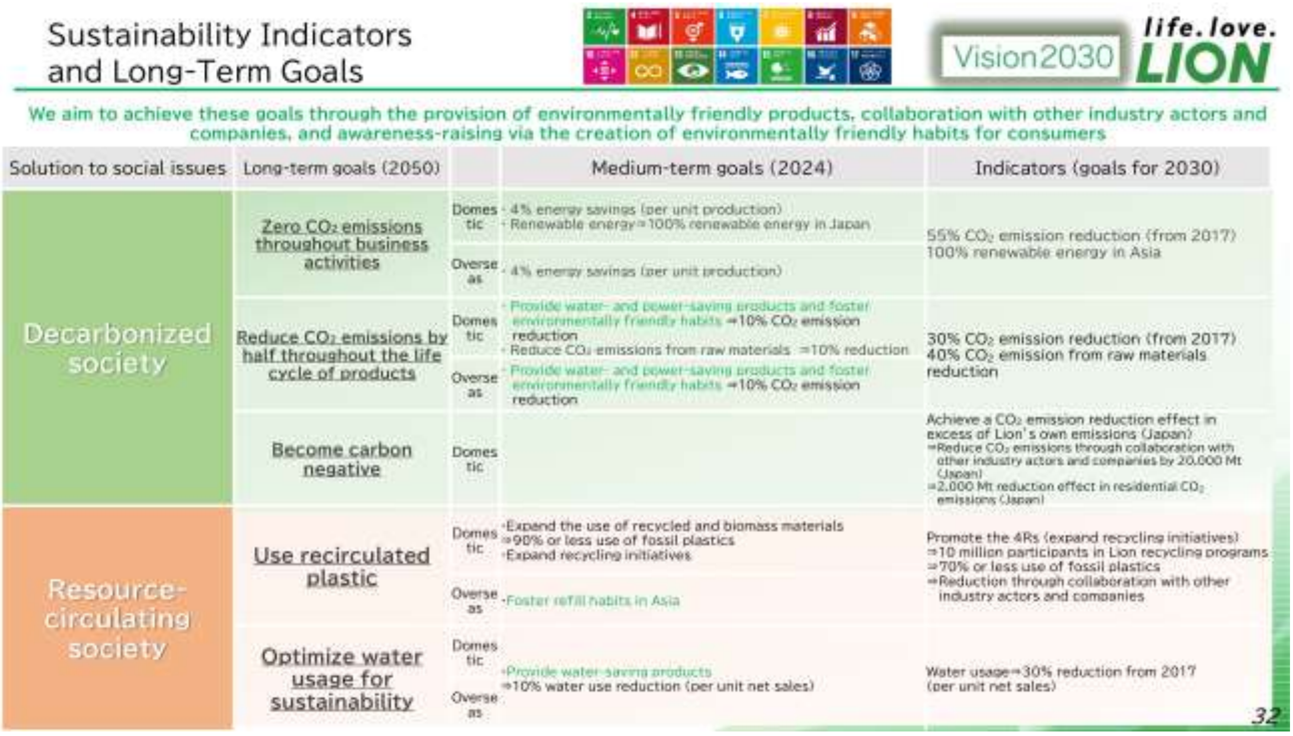
The figure on the right shows the trend of our plastic consumption in Japan and the effect of plastic reduction.

So far, we have reduced the use of plastic by 80% through the penetration of refillable pouches and the concentration of liquid detergent.

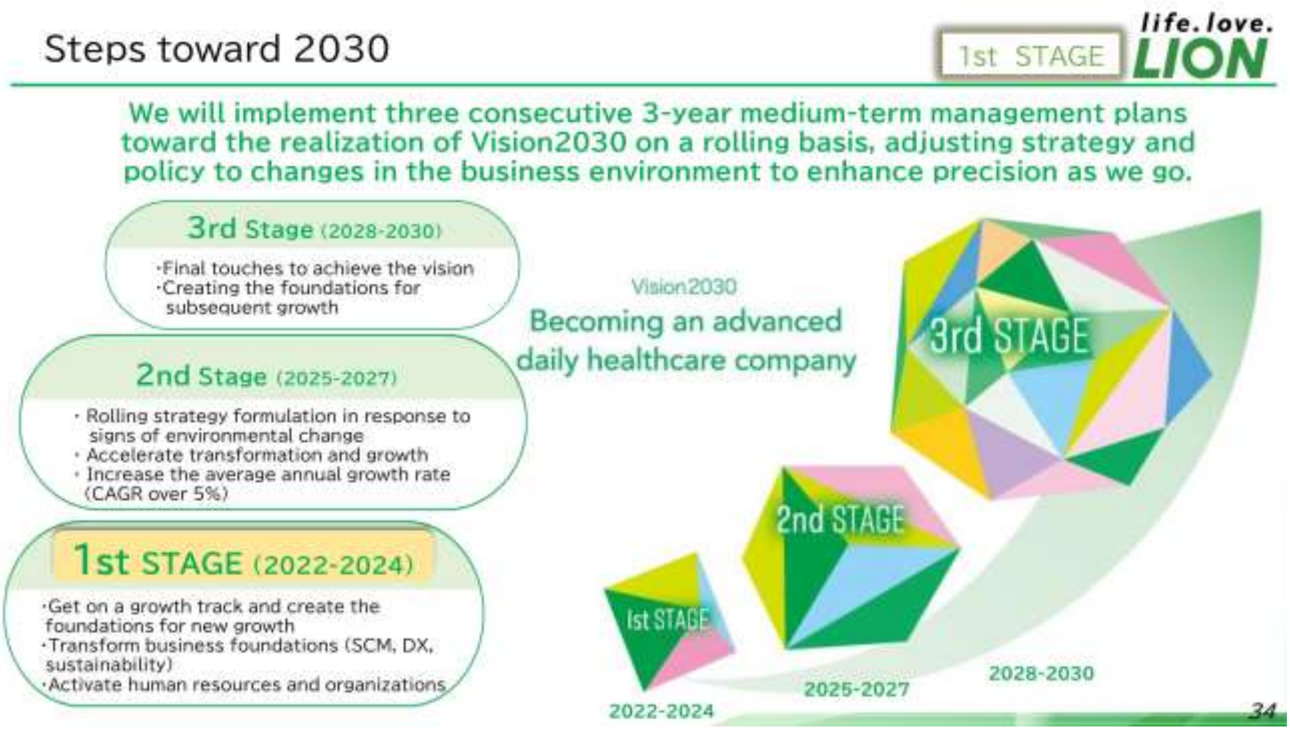
However, this refill culture and custom, which is common knowledge in Japan, has not yet penetrated overseas, and we believe that the penetration of refillable pouches in Asia will be a very important point in reducing plastic.

We would like to build a model for plastic reduction and reuse, and propose this model to other Asian countries, together with the horizontal recycling project that we are working on with Kao Corporation and others.

Here are the KPIs for contributing to sustainability through environmentally friendly habits and the main measures to achieve them. I'll skip the details.



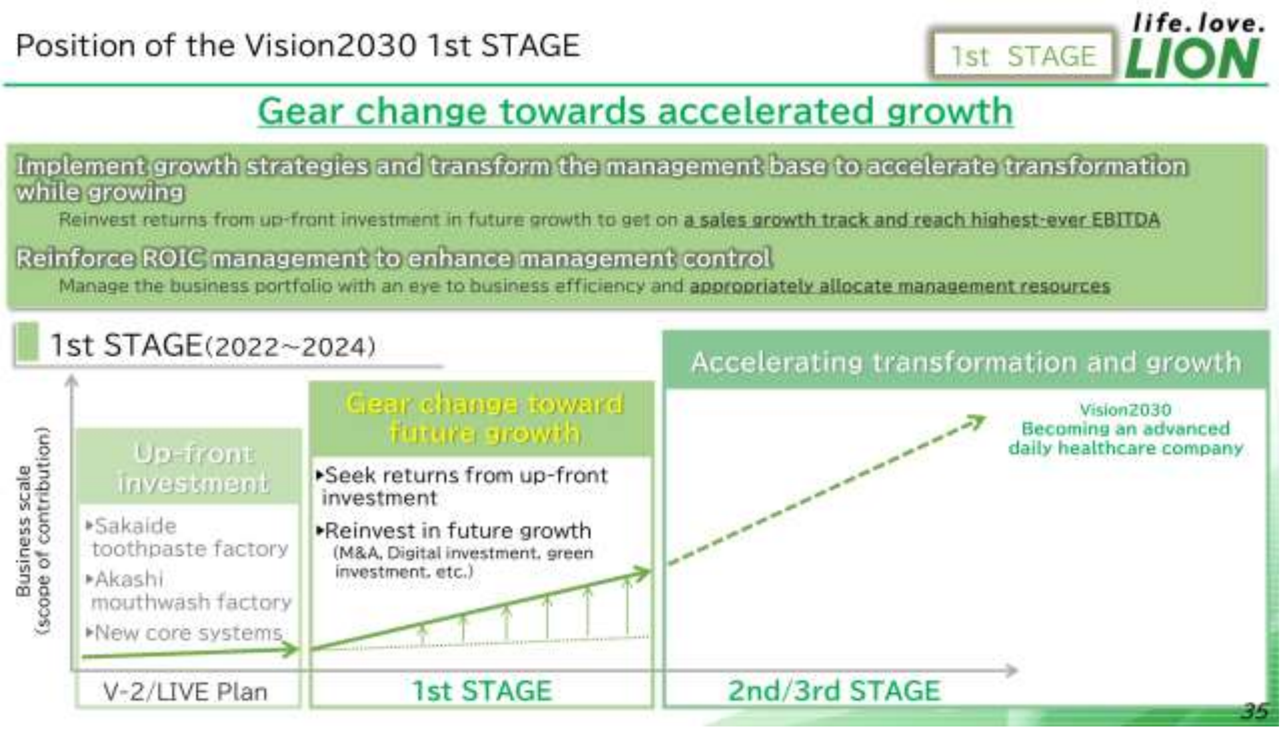
Of course, in addition to these measures, we will also steadily promote the reduction of CO2 emissions from our business activities, which corresponds to Scopes one and two, by setting targets and measures, as you can see.



I would now like to explain the new medium-term management plan that will be launched this year.

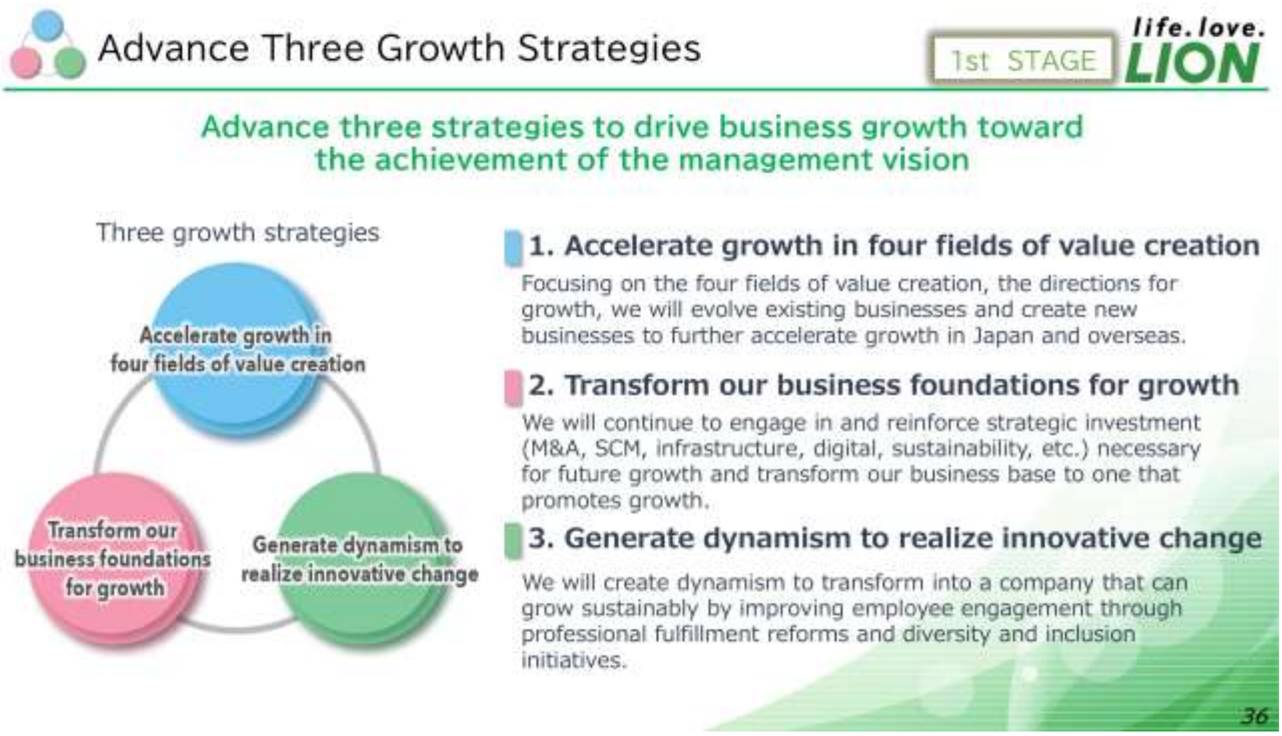
We have started our first, three-year medium-term management plan to realize Vision 2030, which I explained earlier. This process will be repeated three times in order to tune the strategy and policy to changes in the business environment, and to increase the certainty of implementation.

For the first stage starting this year, we will promote the themes of setting a growth trajectory, creating a new starting point for growth, reforming our management base, and revitalizing our human resources and organization.



In addition, we have positioned the three years of the first stage as a period for gearing up for accelerated growth, and we will simultaneously promote the implementation of growth strategies and the transformation of our management base, making it a three-year period for accelerating transformation while achieving growth.

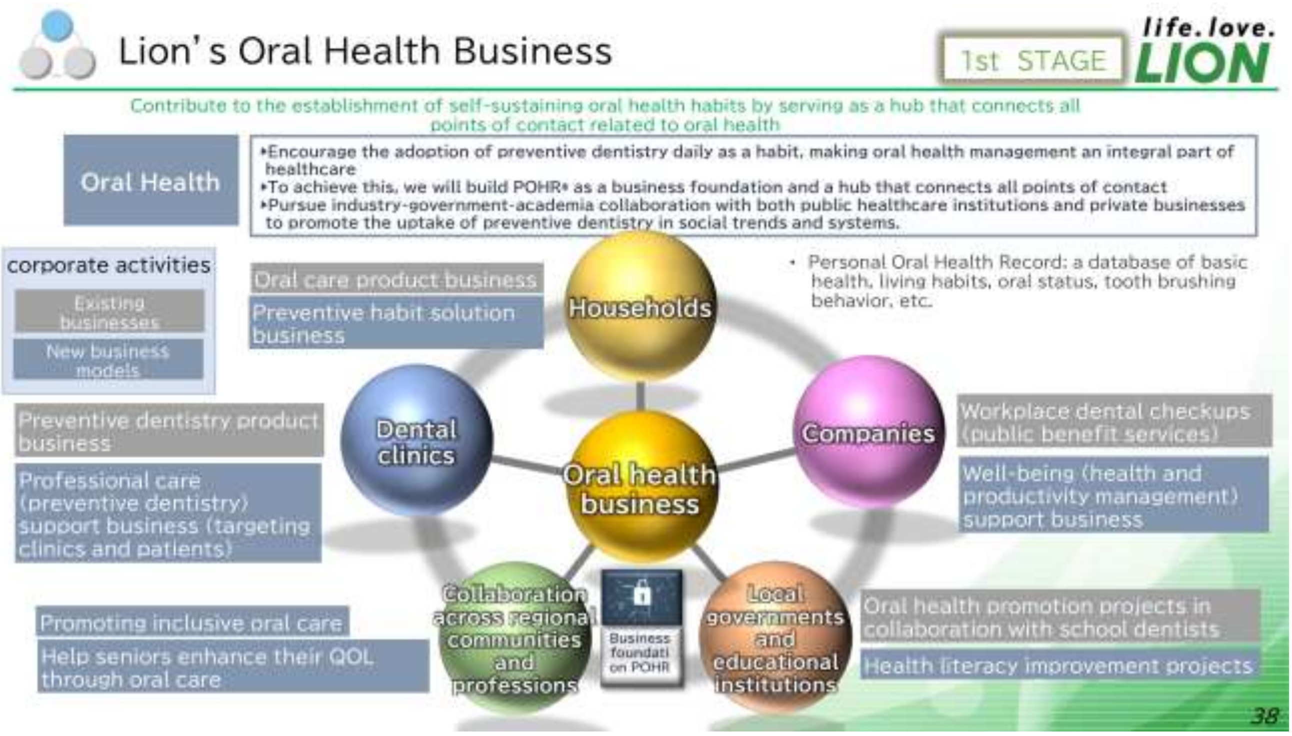
We would also like to promote the strengthening of management controls, such as the use of ROIC management to realize the appropriate allocation of management resources.



Next, I will explain the specific actions based on the three growth strategies.

Major initiatives are described below.

In particular, I have already explained the growth strategy at the top of the page, including the strategy for accelerating growth in China and measures to strengthen M&A, so I would like to explain the acceleration of growth in the four fields of value creation at the top of the page, based on an example in the area of oral health.



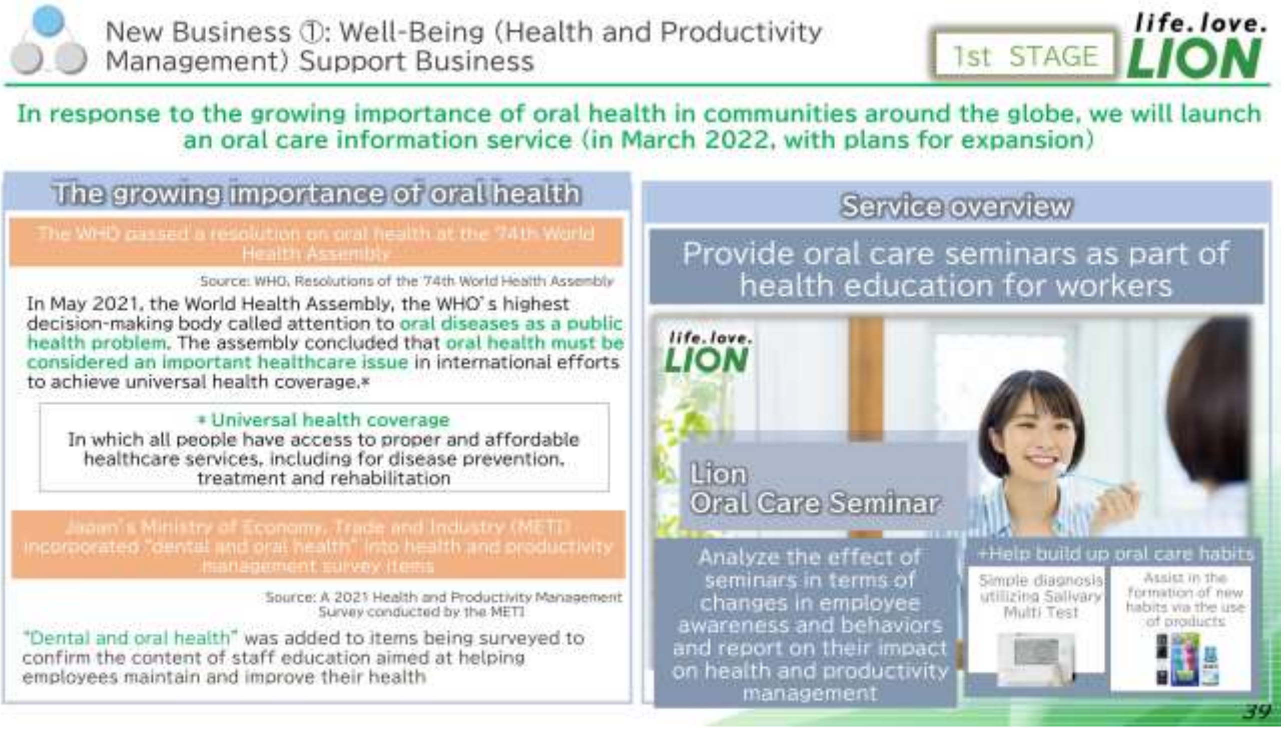
First of all, here is a general overview of what our oral health business is.

Although the importance of oral health in healthcare is increasing, the distance between oral health and consumer awareness is still very far. This is why we are developing a business that elevates oral health to the context of systemic healthcare and makes preventive dental behavior a habit.

To achieve this goal, we will build a POHR, or personal oral health database, as a business foundation, and develop businesses that serve as hubs to connect all stakeholders involved in oral health, as shown in this diagram, by combining existing businesses and new business models.

In addition, this project will be developed in collaboration with industry, government, academia, and doctors to create a social trend and social system for preventive dental behavior.

I'll explain the well-being support business, which is on the right. And then I'll introduce the health literacy improvement support projects in detail.

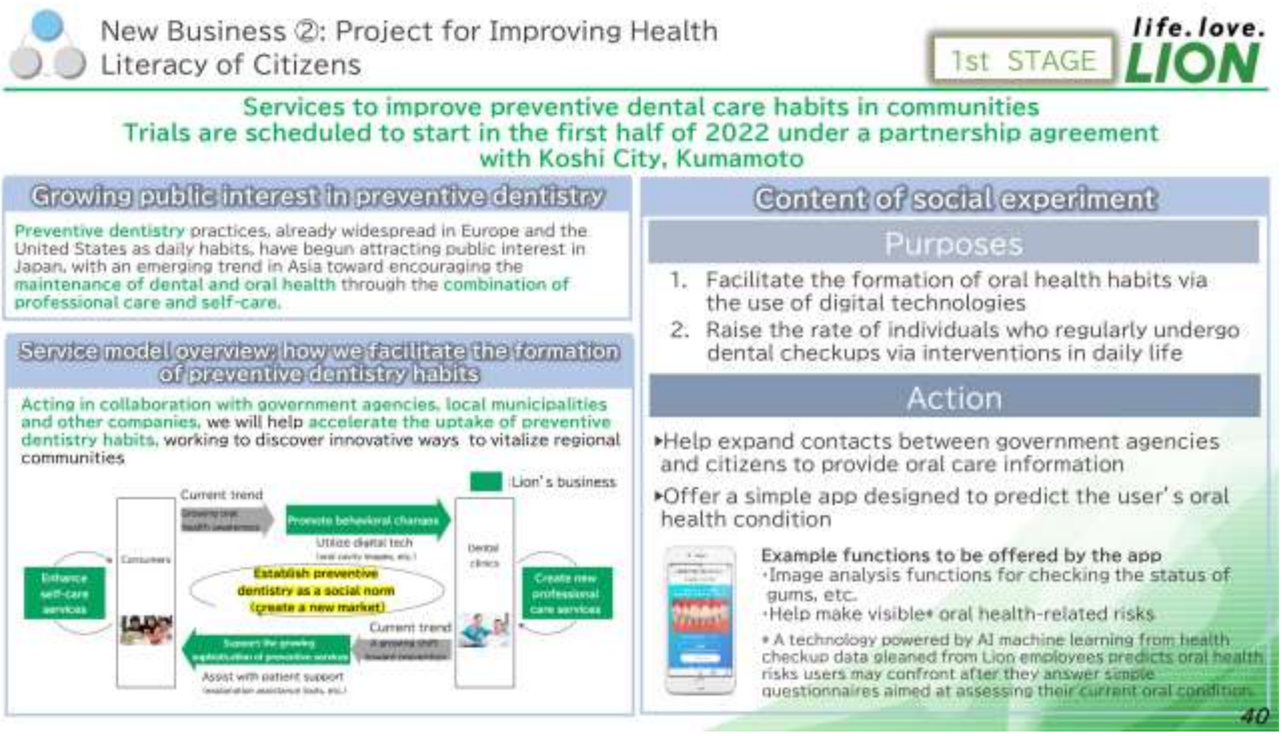


First, I would like to introduce the first phase of the well-being support business.

As part of our overall oral health business, we are launching a new business for corporations and municipalities in response to the growing importance of oral health, which is a global trend.

First of all, we will start providing oral care information services for companies and local governments in March this year. The outline of the service is to provide seminars on oral care as part of health education for employees and staff, which is considered important in the health management level survey items of the Ministry of Economy, Trade and Industry, and to analyze the effects of awareness and behavioral changes caused by the seminars and report on the effects of health management.

In the future, we plan to gradually develop interactive services that provide feedback to users within 2022.



Next, in the area of support for improving health literacy, we will start a social experiment of a service to make preventive dentistry a habit through the use of digital technology under a partnership agreement with Koshi City, Kumamoto Prefecture.

In order to find a new means of community revitalization to make preventive dentistry a habit in cooperation with local governments, dental associations, and companies, this social experiment aims to collect oral health data from citizens and accelerate the development of new behavioral habits by utilizing our knowledge of preventive dentistry and applications.

Specifically, we plan to conduct social experiments with the objectives and actions shown here, and to verify the effects. In addition to the health literacy improvement project, we envision that this activity will be the beginning of the pro-care support project that I mentioned just before.

Like this, we recognize that the biggest challenge in the oral health field is to elevate oral health to the context of healthcare and to make preventive dental behavior a habit, and we will aim to capture a wide range of profit opportunities to solve this challenge.

1st STAGE Goals

1st STAGE | life. love. LION

Under 1st STAGE, we will get sales growth on track (CAGR of 4% or more) and aim to reach our highest ever EBITDA

(Billions of yen)	2024	2021	Y-o-Y change	
			Amount	%
Net sales	420.0	366.2	53.7	14.7
Core operating income*1 (% of net sales)	32.0 (7.6%)	30.9 (8.4%)	1.0	3.5
Operating profit (% of net sales)	32.0 (7.6%)	31.1 (8.5%)	0.8	2.7
Profit for the period attributable to owners of the parent	23.0	23.7	(0.7)	(3.2)
EPS (Yen)	72.24	81.73	(9.49)	(11.6)
EBITDA*2	52.0	45.1	6.8	15.1
ROIC(%)*3	Approximately 7.5	8.8	—	(1.3)PP
ROE (%)	Approximately 9.0	9.8	—	(0.8)PP

Notes 1. 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.
2. EBITDA is an indicator of profitability on a cash basis calculated as the sum of core operating income and depreciation and amortization (excluding that of right-of-use assets as of 2022). ¥43.9 billion in 2021 (adjusted).
3. ROIC is an indicator calculated from net operating profit after tax (NOPAT) divided by the average invested capital (total equity plus interest bearing liabilities) during the period, and measures the efficiency and profitability of the invested equity.

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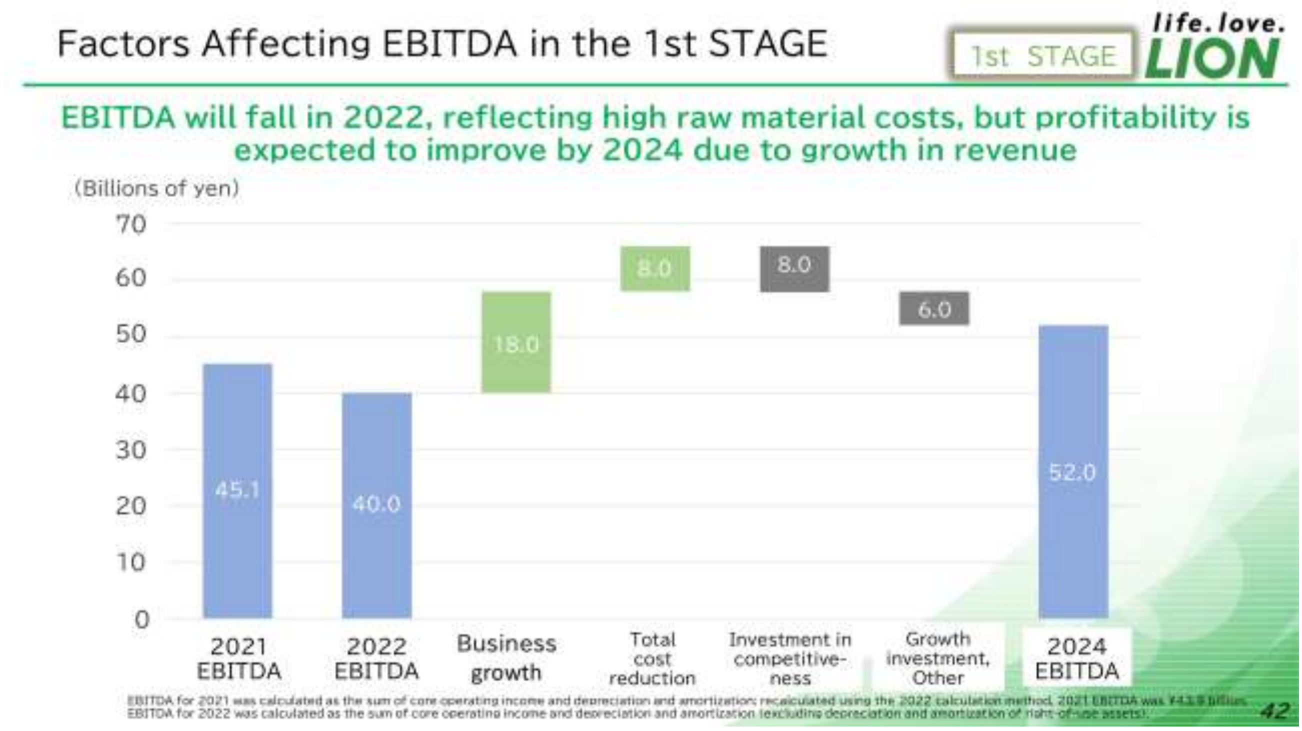
Next is the first stage goals.

In 2024, the third year of the project, we are aiming for sales of JPY420 billion, a CAGR of 4.7%, and EBITDA of JPY52 billion, a record high.



Here is a chart showing EBITDA through to 2024.

What I would like to say is that we will invest in growth over the next three years, and while continuing to do so, we will also realize business growth and create this flow.

In addition to the increase in gross profit from solid business growth, we expect to steadily expand profitability by promoting total cost reduction. We will create this spiral flow that will lead to cash expansion while making continuous growth investments with a view to the medium to long term.

In 2022, EBITDA will temporarily decrease, but this is because we expect it to be affected by the rise in raw material prices by about JPY6 billion, and we will continue to steadily promote this trend of investing for growth while growing our business.

Therefore, as a result of these efforts, we will achieve a record high EBITDA in 2024 by building on our solid growth.

Sales to External Customers by Business Segment During 1st STAGE

1st STAGE

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Focus on growth overseas to bring consolidated net sales CAGR of 4% or more

(Billions of yen)	2024	2021	Y-o-Y change	
			Amount	CAGR (%)
Consumer Products	250.0	229.5	20.4	2.9
Industrial Products	37.0	34.7	2.2	2.1
Overseas	130.0	98.7	31.2	9.6
Other	3.0	3.1	(0.1)	(2.1)
Consolidated Total	4,20.0	366.2	53.7	4.7

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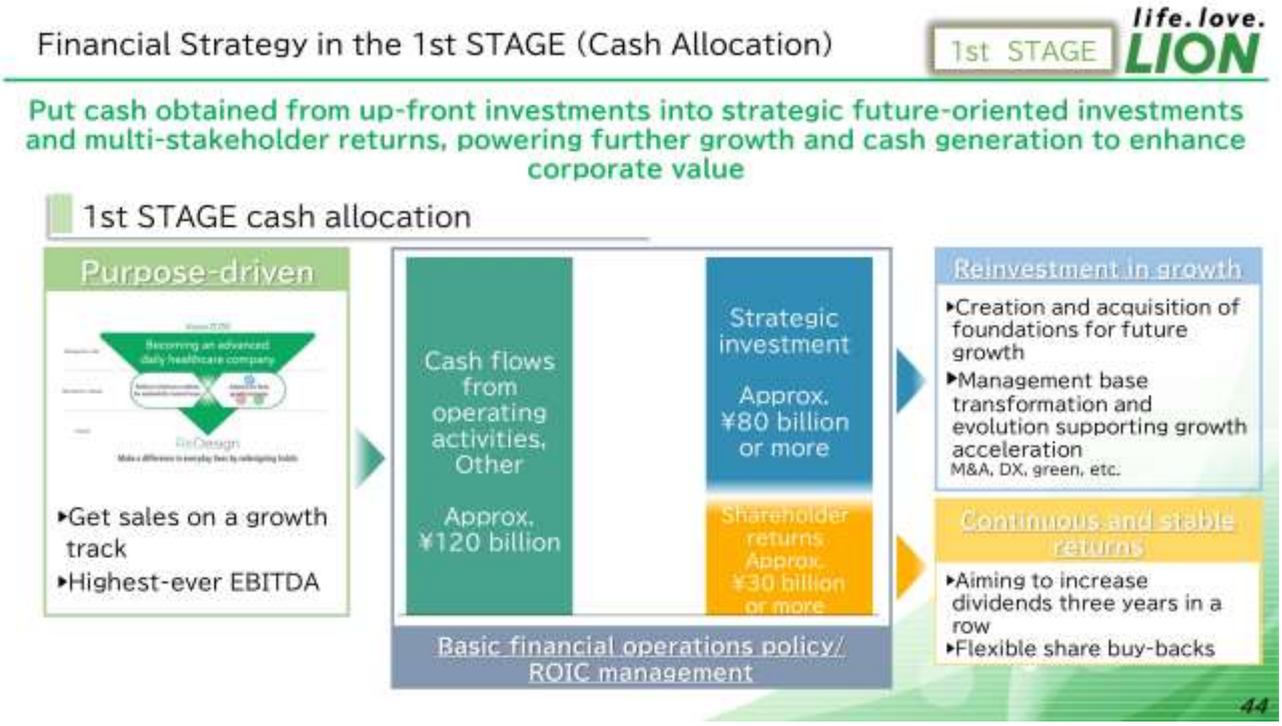
This is the breakdown of the sales forecast by segment.

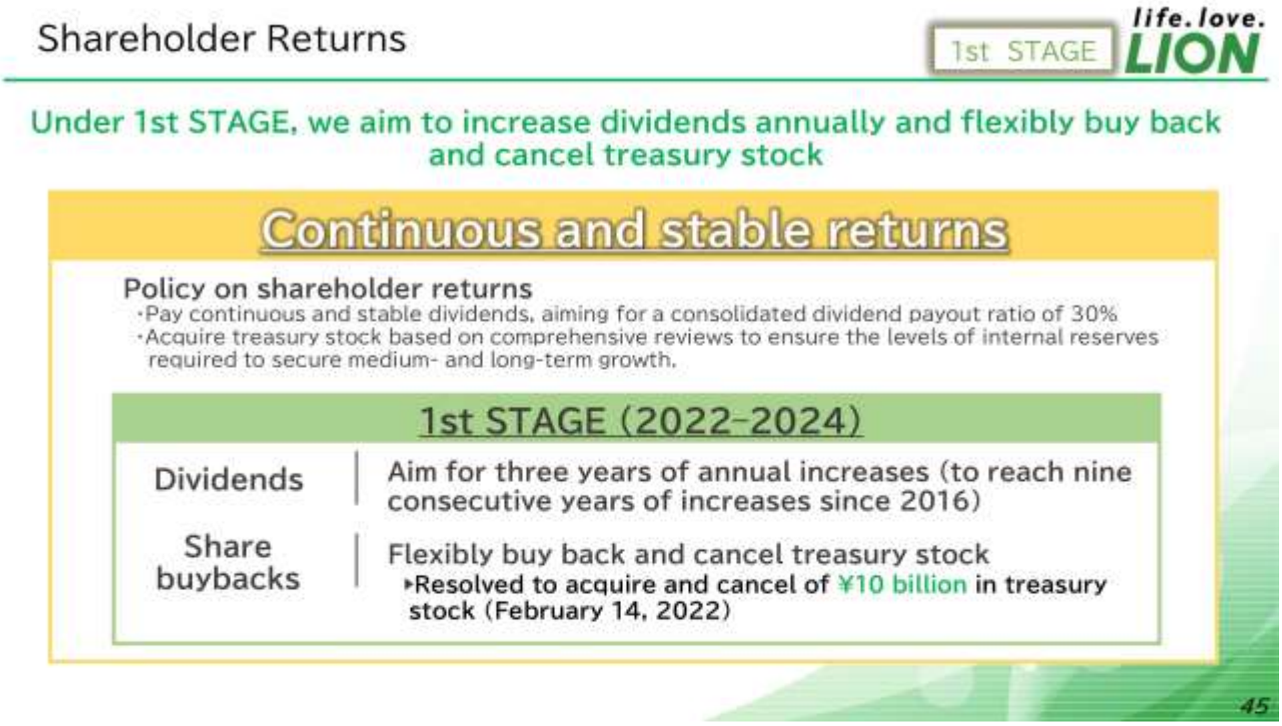
The point will be to achieve overseas growth. We will aim to achieve a total CAGR of 4% in consolidated net sales.



This is about cash allocation.

As we have been reporting, during the period of this mid-term plan, we will use the cash generated from the expansion of EBITDA for strategic investments for the future and returns to our multi-stakeholders, in order to achieve further growth and cash generation, thereby enhancing our corporate value.

During the medium-term management plan, we expect to make strategic investments of approximately JPY80 billion and return approximately JPY30 billion to shareholders.



With regard to shareholder returns, at the first stage, we will aim to increase dividends every fiscal year and provide continuous and stable returns by flexibly purchasing and retiring treasury stock.

From here, I will explain our full-year earnings forecasts for 2022.

I would like to talk about the external environment that is assumed as a premise for the earnings forecast and its impact on our company.

Regarding the situation of the new coronavirus, we expect that the situation in Japan will be under control after the second quarter at the earliest.

As for the impact on the market we are entering, we will continue to see high value-added products, including oral care products, due to continued stay-at-home demand and heightened health consciousness.

We expect an increase in demand for antipyretic and analgesic drugs as a response to adverse reactions to vaccine booster vaccinations to make a positive contribution to sales.

On the other hand, sales of hand soap and hygiene products are expected to remain almost at the same level as the previous year.

Overseas, in Southeast Asia, we assume that consumption will become more active due to economic recovery, and that this will proceed gradually.

With regard to raw material prices, we have factored in a significant increase in manufacturing costs due to high prices.

2021 Consolidated Financial Forecast

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Planning for a year on year increase in sales and decrease in profits

(Billions of yen)	2022	2021	Y-o-Y change Amount	Y-o-Y change %
Net sales	375.0	366.2	8.7	2.4
Core operating income*1 % of net sales	23.0 (6.1)	30.9 (8.4)	(7.9)	(25.6)
Operating profit % of net sales	27.5 (7.3)	31.1 (8.5)	(3.6)	(11.8)
Profit for the period attributable to owners of the parent	20.0	23.7	(3.7)	(15.8)
EPS (Yen)	68.79	81.73	(12.94)	(15.8)
EBITDA*2	40.0	45.1	(5.1)	(11.5)
EBITDA margin(%)*3	10.7	12.3		(1.6)PP
ROIC(%)*4	5.5	8.8		(3.3)PP
ROE (%)	8.0	9.8		(1.8)PP

Notes 1. 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.
2. EBITDA is an indicator of profitability on a cash basis calculated as the sum of core operating income and depreciation and amortization (excluding that of right-of-use assets as of 2022). ¥43.9 billion in 2021(adjusted).
3. EBITDA margin: The ratio of EBITDA to consolidated net sales.
4. ROIC is an indicator calculated from net operating profit after tax (NOPAT) divided by the average invested capital (total equity plus interest bearing liabilities) during the period, and measures the efficiency and profitability of the invested equity.

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The forecast is for net sales of JPY375 billion, core operating income of JPY23 billion, operating profit of JPY27.5 billion, profit for the period attributable to owners of the parent of JPY20 billion, and EBITDA of JPY40 billion.

I will explain the factors that increase or decrease core operating income later.

2022 Results by Business Segment Forecast

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A 2.4% increase in Consumer Products and 3.3% increase in Overseas drove an increase in overall sales

(Billions of yen)	Sales to external customers			
	2022	2021	Y-o-Y change	
			Amount	%
Consumer Products	235.0	229.5	5.4	2.4
Industrial Products	35.0	34.7	0.2	0.6
Overseas	102.0	98.7	3.2	3.3
Other	3.0	3.1	(0.1)	(6.1)
Consolidated Total	375.0	366.2	8.7	2.4

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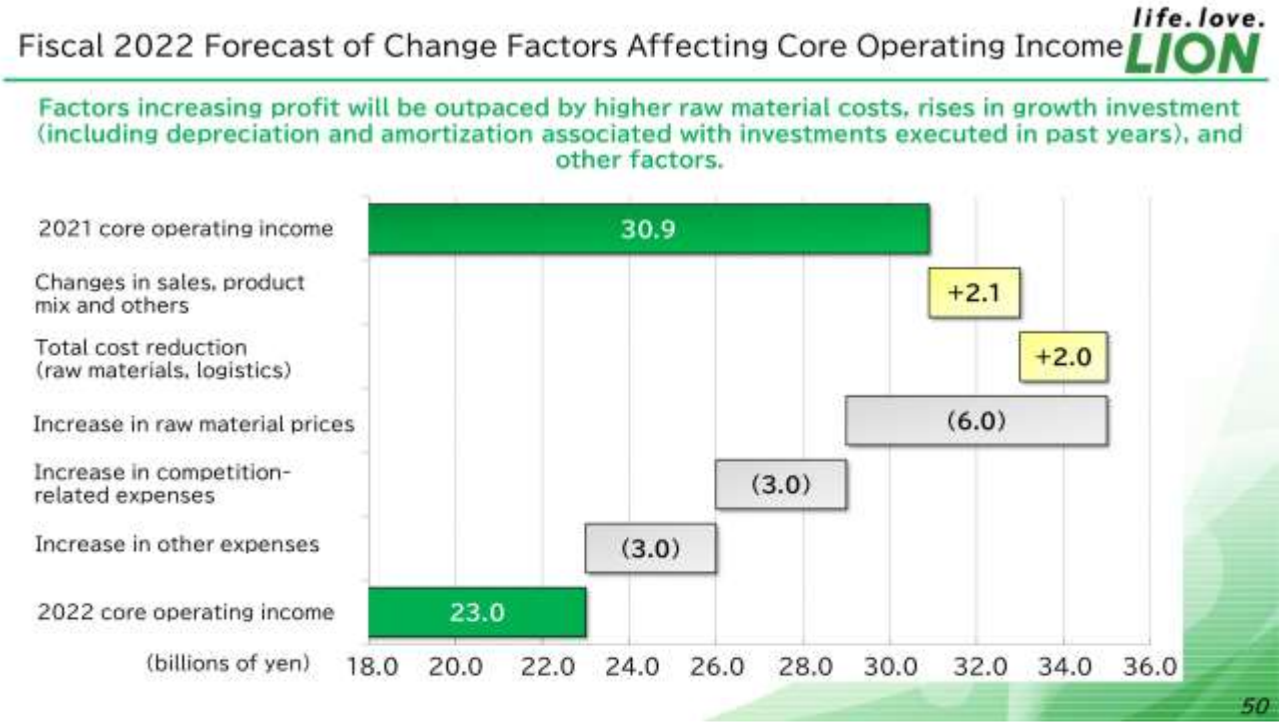
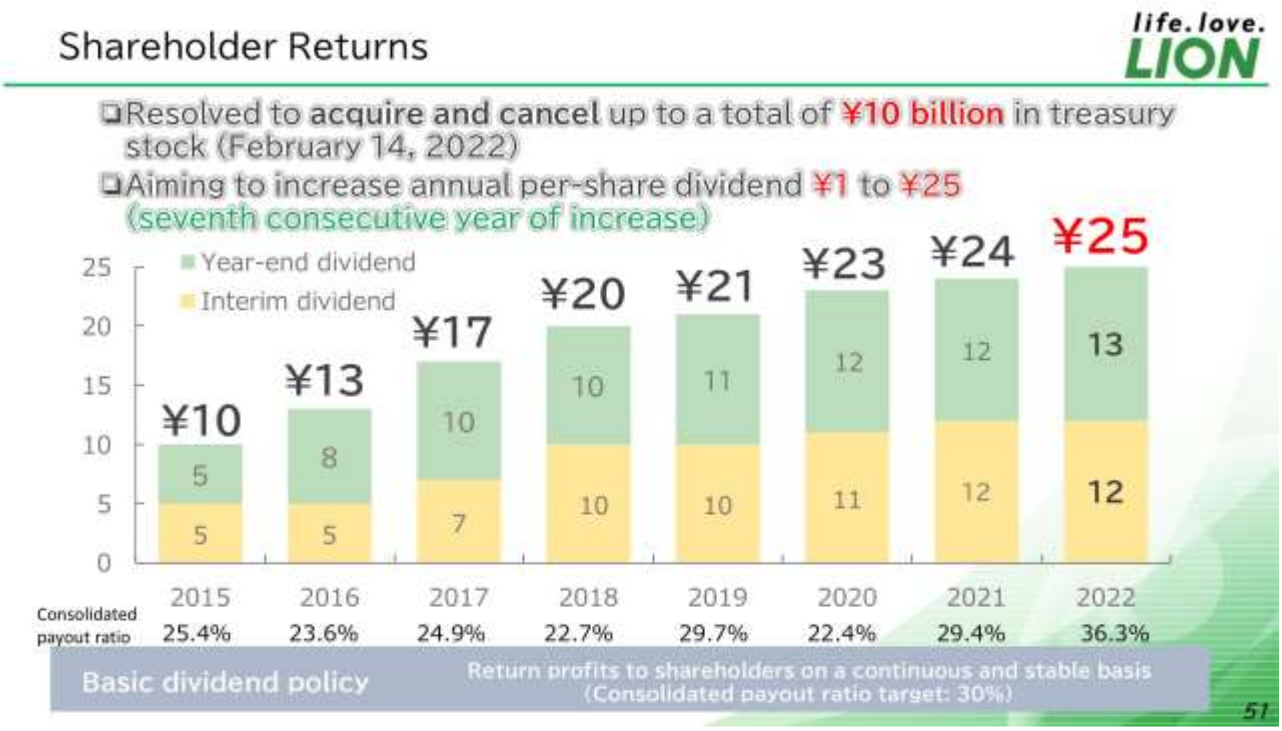
The forecast for external sales by segment is shown here. Sales are expected to increase in all segments except for the Other segment.



Here is the forecast of change factors affecting core operating income. As shown earlier in the profit increase/decrease by EBITDA, the JPY6 billion increase in raw material prices is a major factor in the decrease in profit.

In addition, the increase in investment for growth and the increase in depreciation and amortization due to investments made in previous years will greatly exceed the increase in gross profit due to the increase in sales and the increase in profit due to total cost reduction, resulting in the forecast of a decrease of JPY7.9 billion in profit.



Lastly, this is about shareholder returns.

Today, in conjunction with the announcement of financial results, the Company resolved to repurchase and retire up to JPY10 billion of its own shares. This is the first time in 16 years, since 2006, that the Company has repurchased and retired its own shares.

For the current fiscal year, we plan to increase the annual dividend by JPY1 from the previous fiscal year to JPY25, in accordance with our basic dividend policy of providing continuous and stable returns to shareholders, making this the seventh consecutive year of dividend increases.

This concludes my explanation.

Question & Answer

Q: Some of your competitors have said that they will soon increase their prices. Could you tell us about your stance on price increases related to rising raw material prices?

A: At this time, we do not anticipate any real price increases, such as increases in shipping prices, nor have we factored price increases into our plans. However, as you can see in the breakdown of year-on-year changes in core operating income for fiscal 2022, we are already seeing a negative impact of about ¥6 billion on profit due to increases in raw material prices. For the time being, our basic stance is to try to absorb this impact as much as possible by accelerating total cost reduction. In the future, if raw material prices remain high for an extended period, or if the yen continues to depreciate, further increasing real raw material prices, we may consider measures that would in effect be a price increase, such as reducing the frequency of special discounts.

Q: Lion’s competitors have said that they will begin increasing prices in March. Are you saying that Lion will not follow suit?

A: Correct, we are not planning to follow suit. We are not at a stage where we can clearly say that we might increase prices if, say, the price of crude oil or exchange rates reach a certain threshold. However, if the price of crude oil remains above US$90/bbl throughout the year, while raising shipping prices would be a last resort, we could take such measures as reducing the frequency of special discounts.

Q: Could you tell us about the year-on-year change factors affecting the fiscal 2022 financial forecast?

A: Depreciation and amortization as well as increased investment in growth and other expenses have already been factored in and therefore are not change factors one way or the other. Raw material prices have already increased beyond what we had assumed when we formulated the forecast, and the question of how much further they could rise going forward represents a risk that could negatively affect profit. On the other hand, we have taken the conservative view that the return of demand associated with the economic recovery in Southeast Asia and other regions will occur somewhat gradually, so if these regions recover more quickly, it could be an opportunity to boost our business performance.

Q: Under the medium-term plan, going forward, depreciation will increase and you will be making investments. At the same time, page 42 of the presentation materials shows that you anticipate ¥18 billion in business growth. How much of this ¥18 billion is return on the investments? Will such returns be larger under 2nd STAGE? Please tell us more about how you are approaching returns on investments.

A: We plan for somewhat active capital investment during the period of 1st STAGE. For example, total investment in the Sakaide Factory will exceed ¥30 billion, but we are mostly finished with this kind of large-scale investment, and we do not anticipate capital investment to continue to increase in the future. As a result, depreciation and amortization may increase more, but only a little. On the other hand, our investments in the Sakaide Factory and in systems have gradually started to show results since the latter half of 2021, and there are still greater results to come. As such, we believe that the recovery of our growth investments will start in earnest from the second half of 2022.

In addition, during 1st STAGE, while we anticipate approximately ¥120 billion in incoming cash flows, we will invest more than ¥80 billion. On top of that, the recovery of the investments made last year and the year before will gradually begin in the latter half of 1st STAGE, and we will work to increase recovery and asset efficiency as we advance toward 2nd STAGE and 3rd STAGE. This will the basis of our ROIC management.

Q: Why has Lion not planned to raise product prices?

A: There are two reasons for not raising prices. Our basic stance is to focus on the strategy of steadily increasing product unit prices by adding value over the medium to long term. This is because we believe that it is not necessarily desirable for the prices of consumer products that are used in daily living to rise and fall with the ups and downs of raw material prices. Incidentally, over the past 10 years, in almost all the markets where we do business, we have successfully raised average unit prices by 20% to 30% by adding value, so we will continue this strategy. However, the fact that rising raw material prices have already had an impact of ¥6 billion is quite significant. Therefore, in addition to shifting toward higher-added-value products, we will considerably accelerate the total cost reduction efforts we started in the second half of 2021. We hope to achieve a cost reduction of around ¥8 billion by 2024.

Q: You have factored in a negative ¥6 billion impact of raw material prices on core operating income for 2022, but could you tell us how much of that is due to palm oil and how much is due to crude oil?

A: Broadly speaking, given our current business structure, the impact of crude oil price increases is much greater.

Q: I can understand the strategy of adding value over the medium to long term in oral care and pharmaceuticals, but it seems like competition in fabric care will be tough. Could you tell us more about your strategy in fabric care?

A: Of the major consumer product markets where we do business, laundry detergents and fabric softeners are the only two in which unit prices have not risen over the last ten years or so. Looking at the market, unit prices calculated simply as net sales divided by number of units have increased due to the increase in refill pack size, but we have not succeeded in increasing the unit price in a real way. We see this as a significant challenge, and we hope to bring major innovation to this area as soon as possible.

Q: I understand that the unique logic of the Japanese market makes it difficult to raise product prices , but if Lion does not raise prices when other companies are doing so to pass on raw material price increases, unless you can more than make up the difference in volume, I don't think you are actually implementing ROIC management. Could you tell us your thoughts on this?

A: We assume that the current rise in raw material prices will be somewhat prolonged, but we do not expect raw material prices to skyrocket wildly. We believe that prices this year are close to their upper limit. From here, we expect our gross profit to increase and our top line to rise due to investment in growth, which will improve profit. Also, we do not intend to employ ROIC management in a short term-oriented manner. There are two main reasons that we use ROIC management. One is to shape our business portfolio by determining which parts of our businesses we should focus on. The other is to do with the considerable investment we have made over the past two years and will make during 1st STAGE. We are introducing ROIC management with the intention of assessing the content of the businesses where we invested in terms of both the efficiency and profitability of the capital invested.

Q: Is it correct to say that you are not avoiding raising prices when your competitors are doing so in order to gain volume?

A: Yes. We do not intend to pursue volume gains by, for example, decreasing prices in response to our competitors' price increases.

Q: You plan to strengthen the Overseas Business under the medium-term management plan, although you expect growth in 2022 to be limited to 3%. What risks do you see in this business? Also, could you tell us more concretely how you will allocate resources in Qingdao Lion's businesses?

A: Qingdao Lion has been growing at an annual rate of 16%. Over the next 10 years, we will endeavor to raise this to 22%, which we achieved last year.

While it is true that the oral care business will continue to be the core of our business in China, I believe that there are opportunities for us to expand our business portfolio and into new areas. Through our ongoing business in China, recognition has grown of the SYSTEMA and CLINICA brands and of the underlying Lion brand. We believe that our customers' perception of us as the number one oral care product manufacturer in Japan is gradually expanding, and that we can use this to our advantage. Based on this strength, we will reinforce our oral care business in inland regional cities, where we have mostly been unable to do businesses so far.

In addition, we are expanding our business fields. For example, we aim to significantly expand the pet supplies business launched last year. We will not engage in the pet food business. Instead, we will focus on oral care for pets, making businesses where we can secure a solid profit the pillar of our operations. This will allow us to take on the challenge of raising the average annual growth rate another 6 percentage points from the current 16%.

As for why we anticipate growth of only 3% in the Overseas Business in 2022, although economic recovery in Southeast Asia is gradually progressing, it is a little uneven from country to country. We believe the economy will return to the pre-pandemic level in the latter half of 2022, so this will not be the year that we will once again achieve a sales growth rate of about 7%, as before. Given these factors, we plan for 3% growth this year.

Q: What are your assumptions for Qingdao Lion this year?

A: Sales at Qingdao Lion will continue to see firm growth this year, and we expect to be able to maintain profit margins at almost the same level as last year, meaning that we will be able to achieve profit growth in proportion to sales growth. Since Qingdao Lion's business structure is centered on oral care, it has not been affected as much by the rise in raw material prices. In contrast, the negative impact is very large in Southeast Asia and South Korea, where laundry detergents are one of our main businesses.

Q: Core operating income in 2022 is forecast to decrease by about ¥8 billion year on year. Could you break down that decrease in terms of the domestic and overseas businesses?

A: We will refrain from giving specific figures for the decreases in domestic and overseas business. However, we expect the ¥6 billion negative impact on profit from rising raw material prices to be split approximately equally between domestic and overseas businesses. We are planning to increase competition-related expenses by about ¥3 billion this year, mainly to invest in sales promotion aimed at growth in Qingdao Lion , as we did in 2021.

Q: In terms of profit for the period, when do you expect to return to year-on-year profit growth? I assume profit will greatly increase from 2023, but could you tell about the reasons for this and the timing of the turnaround?

A: We have not formulated a rigid business plan for 2023 at this time, so I will avoid making any concrete comments on when profits will start to increase. There are three main reasons for the decline in profit in 2022, namely, higher raw material prices, higher depreciation and amortization and increased investment in growth. As I mentioned earlier, raw material prices are expected to rise only this year, and from next year onward, we are assuming that the prices will stay almost the same, so we do not think it will be a greater negative factor than it is this year. In addition, depreciation and amortization and investment in growth will continue to increase, but the pace of increase is expected to be somewhat slower than it has been. If sales growth can exceed that increase, we believe that we will be able to return to year-on-year profit growth from 2023.

Q: Is it correct to assume that the Overseas Business, particularly Qingdao Lion , will drive sales?

A: Yes, sales of Qingdao Lion are expected to grow by about 20% this year, and in terms of increasing gross profit, we expect Qingdao Lion to contribute somewhat to profit, as well.

Q: Returning to product pricing, in Japan, the price structure itself, especially in fabric care, is very irregular. Given that costs could rise again in the future, in the long run, it seems important for the industry as a whole to increase its flexibility to be able to pass on costs, when they rise, in the form of product prices. Could you explain your medium- to long-term perspective on the domestic fabric care industry?

A: I think you can understand the industry by looking at the range of prices at the distribution stage. It is common for the price of a standard product normally sold for ¥300 to drop to close to half that during a special discount sale, a movement of as much as ¥100. Given that, is it more realistic and effective to raise the shipping price, which we set uniformly, by ¥10–20, or to control the average per-unit price by reducing the frequency of special discounts, in which products are sold for ¥100 less? I think the latter is more realistic at the moment. In particular, for companies that have a business style like ours, with wholesalers and distributors in the middle, there are price cushions at two stages, so I think that controlling the prices and frequency of special discount sales in coordination with wholesalers and retailers is the more realistic option.

[END]

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