

Analyst Q&A (Summary)
First Half Ended June 30, 2022

Business Performance

Q: Looking at how core operating income exceeded the plan for the first half of the year, could you tell us, quantitatively, how each segment did?

A: Since we do not disclose segment profit targets, we cannot say exactly how much core operating income exceeded these targets. But, in broad terms, sales in the Overseas and Industrial Products segments exceeded the plan, and the sound progress of efforts to pass on price increases to consumers also contributed to the higher-than-expected income.

Q: You listed segment composition changes as having a negative ¥1.3 billion impact on core operating income compared with the initial forecast. Could you tell us more about this?

A: The figure for segment composition changes is calculated to show only the effect of the those changes, that is, how much profit would have changed if each segment's profit margin were exactly the same as last year. The segment composition changes caused an increase in the shares of total sales attributable to the Overseas and Industrial Products businesses and a decrease in sales attributable to the Consumer Products business, which has the highest profit margin among our segments. Because of this shift, profit saw a negative ¥1.3 billion impact, even though total net sales increased.

Q: Slide 15 shows a positive ¥5.2 billion impact for the full year from raising sales prices and revising the prices and frequency of special sales in response to the increase in raw material prices. Could you give us a breakdown of that figure? Also, there has been a lot of talk about companies raising their prices. Is there any change in Lion's stance on price increases?

A: The impact of sales price increases and effective increases via revisions to special sale prices and frequency in the second half is expected to amount to a positive ¥3.3 billion compared with the initial forecast. In Consumer Products, we will take measures that will lead to an effective increase in retail prices in the second half, mainly in the fourth quarter. We hope to absorb about half of the higher-than-expected increase in raw material prices through these price increases and to cover the remainder through cost reductions and streamlining.

Forecasts

Q: Please tell us your thoughts about allocating costs and profit in 2023. If raw material prices continue to fall steadily, and since the depreciation of the Sakaide Toothpaste Factory will be the same as the previous year, it seems like you should see an increase in profit next year.

A: We hope to ensure that this year's core operating income is the lowest it will go and to raise it next year and beyond. However, while raw material costs are decreasing from temporary highs, the yen remains weak, and we cannot be overly optimistic. To increase profit, we will work to improve gross profit by firmly growing sales while focusing efforts on the four measures shown on slide 16.

Q: Qingdao Lion saw a year-on-year decrease in first half sales (total net sales on a local currency basis). What do you expect for second half sales? How are changes in e-commerce in China, such as the growth of new platforms, affecting Lion?

A: In household consumer products, platforms are diversifying, and I think that our response has been adequate. In online channels, we decided to change agents for some of the major platforms in order to strengthen our business over the long term. As a result, sales are temporarily stagnant. However, in offline channels, which we have been reinforcing this year, sales have been strong.

Q: I would like to know your thoughts on the target figures for 2024. If you maintain the current sales price increases, which were not included in your plans at the start of the year, and raw material prices fall, do you expect the effect of price increases (higher-than-planned profit) to continue into 2024?

A: When we formulated the Vision2030 1st STAGE plan (for 2022-2024), we did not factor in the current rise in raw material prices or the effects of raising our sales prices. However, I do not think that if raw material costs decrease, just the positive effects of our price increases will remain, leading to increased profit. We are determined to stick to our targets for 2024, and we aim to achieve them by steadily implementing the four measures shown on slide 16.

Other

Q: What is the purpose of the major new product launch to be announced in November?

A: Our basic strategy has been to expand the top line and improve profitability by moving the market toward higher-added-value products. We have achieved a certain level of success with this in the oral care and other fields, but we have not been able to shift toward higher added value in the fabric care field, which has been a major challenge. It took some time, but we are now finally almost ready to launch major new, innovative products.

Q: How will you monetize *Okuchi Plus You*?

A: The services offered under *Okuchi Plus You* will incorporate saliva testing and support content, such as e-learning, into the oral care seminars for corporate customers that we have already launched. We will charge for saliva tests and support content, but the level of support will be graded according to the customer's number of employees and other circumstances, and prices will be determined individually.

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