February 13, 2023
Lion Corporation

Analyst Q&A (Summary)

Fiscal Year Ended December 31, 2022

Results and Forecasts

Q: During the fourth quarter of fiscal 2022, what were the environmental and other factors that contributed to the positive impact of the change in segment composition on profit increase and decrease?

A: In the fourth quarter, sales price increases and cost improvements thanks to progress in efforts to limit special sales proved effective and yielded a strong increase in gross profit due to higher sales.

Q: How have you progressed with retail price increases in 2022 in comparison to 2021, and what are your plans for 2023?

A: In 2022, we saw unprecedented increases in raw material costs amounting to ¥8 billion, of which ¥6 billion was passed on through sales prices, resulting in an equivalent rise in retail prices compared to 2021. The ratio for this ¥6 billion of overseas to domestic sales is 6:4, with the overseas market being larger. We understand that price increases are progressing smoothly overseas, and a one-time price increase has been completed in Industrial Products. We will continue to implement substantial price increases in all segment in 2023, and are expecting sales to exceed results for 2022.

Q: I get the impression that you are confident regarding profit increase and decrease factors, and are forecasting a ¥5 billion increase in profit in 2023 due to these and factors that include changes in product mix. Also, you have stated that, given the impact of raw material cost increases, the benefits of this change will be felt in the second half of 2023. I get the impression that you expect these benefits will set you ahead of other companies. Please explain your thoughts.

A: We believe we will be able to achieve the ¥5 billion increase through sales increases and product mix changes as well as new product introductions, including the April 2023 launch of SOFLAN Airis, in addition to achieving sales volumes at or higher than the previous year’s level both domestically and internationally. We expect a negative impact from raw material prices in the first half of 2023, but in the second half, if current conditions continue, we expect a slightly positive impact compared to the previous year, which is the reason for the forecast.

Q: Please explain the reasons for the expected low sales growth rate of 2.6% in the first half of 2023, and for the 40% decrease in the core operating income forecast.

A: The low growth rate forecast for the first half of the year as compared to the expected annual growth rate reflects the new product composition of each business, among other factors. In addition, SOFLAN Airis will be launched in April and therefore will have little effect on the first half results. Also, we are planning to launch a new product in the fabric care category in September, and the anticipated trend for Consumer Products in 2023 is for sales growth to be concentrated in the second half of the fiscal year.

As for profit, the first half of the fiscal year was impacted by price increases in raw material costs, and also by focused promotional costs for the launch of the new SOFLAN Airis. There are also additional head office relocation expenses and other factors, so we are forecasting lower profits for the first half of the fiscal year compared to the same period last year.

Q: How much inbound demand was generated in the fourth quarter of 2022, and how much is forecast for 2023?

A: The annual amount of inbound sales in 2022 was just under ¥4 billion. In calculating this figure, Lion counts sales of products purchased at drugstores in Japan and resold overseas as inbound sales, and sales from resale buyers remained fairly stable during the COVID-19 pandemic. Among inbound sales, annual domestic purchases of our products by foreign tourists were around ¥2 to ¥3 billion at their peak, levels that have not been achieved again even during of the fourth quarter of 2022. We do see opportunities in 2023, but we have not incorporated such sales into our plan and expect this to remain an area for growth.

Overseas Businesses

Q: What was Qingdao Lion's business growth rate in the fourth quarter on a local currency basis? How has the country's Zero-COVID Policy affected Lion's business?

A: The growth rate in the fourth quarter exceeded 20%, and we can say that this period showed a full recovery. At Qingdao Lion, suppliers' activities are almost back to normal, and there has been no effect on production from the Zero-COVID Policy.

Q: What are your expectations for business growth in China in 2023 and beyond?

A: Qingdao Lion's business was already well into recovery in the fourth quarter and we are diligently focusing on expanding offline sales, which account for 70% of the market in that country. In addition to Lion's existing pet supplies business, we intend to proactively diversify by expanding our hygiene-related products business.

Q: What do you expect the growth rate to be for each overseas area during 2023?

A: With the expectation that we will be able to expand offline sales in China and that the growth rate will recover to at least 20% with the diversification of our business there, we are confident of future growth. The Southeast Asia market has been recovering since the end of 2022, and we will work on transforming our portfolio based on the large-scale sales of laundry detergents, by expanding the share of highly profitable personal care area such as with oral care products. The overall growth rate for Northeast Asia, where China is the main market, will be higher on balance, but we also expect growth in Southeast Asia, especially in Thailand and Malaysia.

Q: You expect the growth rate for external net sales of overseas business to reach 6.7% annually in 2023, but is this reasonable? Also, what is your expectation for the growth rate for overseas business in the first half of the year?

A: Due to an albeit slight recovery in yen exchange rates from a period of depreciation, the rate of overseas business growth has appeared low. External sales for the first half are expected to increase by 7.8%. The expected growth rate for the first half of 2023 is a bit high compared to the same period in 2022, because some parts of the market had yet to recover since the COVID-19 pandemic.

Q: What time frame do you expect for the structural reform of the business in Southeast Asia?

A: We have already started the structural reform of our business in Southeast Asia, and, in addition to reviewing our business portfolio to be more oral care-focused, we are working on developing non-traditional business models. For example, in Singapore, we are selling skincare products for sensitive skin with care instructions based on recommendations from dermatologists. We hope these and other efforts will yield results within the next three years so that we can move away from a detergent-focused business structure.

Q: What is your strategic intention for investing in MERAP HOLDING CORPORATION in Vietnam?

A: There is a unique business model in Vietnam, in which doctors at hospitals not only prescribe pharmaceuticals but also recommend over-the-counter (OTC) drugs and highly functional products, depending on the patient’s condition. The patient then buys the product at a local pharmacy. MERAP’s strengths are tied to this business model. Because many patients buy the products their physician recommends to them at a pharmacy, this business model is very profitable in that there is little need to offer discount prices at the store. By marketing our oral care products and highly functional products like skincare items, which we develop in Southeast Asia, we aim to first secure doctors’ recommendations and, in turn, gain brand trust from consumers. Once we have earned a high level of trust among doctors and pharmacies, we will expand our sales channels to include general supermarkets.

We are committed to transforming our portfolio by firmly implementing this business model with MERAP and simultaneously applying and developing it in regions where we already have a presence. We also believe that there is great potential for growth in the Vietnamese market, which may grow even larger than that of Thailand in the future. We intend to build a diversified business in Vietnam that includes not only the personal care field, encompassing such businesses as oral care and skincare, but that also expands into the home care field, becoming a business that surpasses Thailand, our biggest overseas business.