August 7, 2023
Lion Corporation

Analyst Q&A (Summary)

First Half Ended June 30, 2023

Performance in Key Segments

Q: In Consumer Products, net sales seem to have increased significantly in the second quarter (April to June) compared with the first (January to March). Was this due to market factors? What is your forecast for the second half of the year?

A: We believe it was due to both market factors and the impact of new products. Compared with the first quarter, markets improved in the second quarter, and on top of this, newly launched high-value-added products in oral care and fabric care boosted sales.

In the second half of the year, we expect fabric care to drive sales. In addition to launching *NANOX one*, we will accelerate sales growth of *SOFLAN Airis*, launched in the first half of the year, aiming to meet our initial targets for the year.

Q: Consumer Products recorded a core operating loss of ¥300 million in the second quarter. Was this within the range of your assumptions?

A: Yes, the core operating loss in the second quarter was actually slimmer than expected. Factors behind the loss included continued high raw material prices and increases in costs, such as new product promotional expenses and head office relocation costs. However, partly by curbing special sales, we were able to keep the loss narrower than initially assumed.

Q: In the first half of the year, the ratio of core operating income to net sales in the Overseas Business was about 5%. How are you approaching this going forward?

A: In the Overseas Business, we are focusing mainly on business expansion and securing volume in terms of sales value while maintaining profitability. Declining raw material prices have caused competition to heat up in some countries, but we will address this with a range of measures, such as nurturing high-end products.

Q: Core operating income in the first half of the year was ¥800 million higher than your forecast. Am I correct in seeing this as the result of achieving exactly the sales mix targeted in your strategy?

A: In Japan, we successfully secured profitability, and overseas we were able to expand sales while increasing the share of sales accounted for by the personal care field, so yes, we think that this result is aligned with our strategy. In Japan, we will advance the targeted allocation of competition-related expenses, mainly for new products, to bring the sales mix even more in line with our strategy.

Price Increases

Q: Could you break down the approximately ¥4 billion effect of price increases in the first half of the year? Also, do you think there could be further price increases in the second half or in fiscal 2024?

Ａ: Of that ¥4 billion, about ¥2.7 billion came from wholesale price increases, while about ¥1.3 billion was from streamlining sales promotions, and it was mostly the result of measures in Japan. In terms of product types, the wholesale price increases extended to approximately 260 SKU, mainly detergents for institutional use and pet supplies.

In the latter half of the year, we expect a positive effect of about ¥1 billion from price increases and sales promotion streamlining.

Q: You are forecasting greater profit in the second half of the year than the first, but also that price increases will exert a smaller effect. Why is that?

Ａ: We really ramped up price increases in the second half of last year. Since much of the effects of these increases were already felt then, the year-on-year effect of price increases will be smaller in the second half of this year than in the first. We aim to improve profit by raising the portion of sales accounted for by high-value-added products, such as *NANOX one*, which will be launched in September. Also, given our market position, we are prioritizing the streamlining of sales promotions for low-end products over wholesale price increases.

Other

Q: Please tell us about sales from inbound visitors to Japan in the first half and your forecast for such sales for the full year.

Ａ: Sales from inbound visitors in the first half of the year came to about ¥2.8 billion, about 1.8 times the level seen in the same period of the previous fiscal year.

If tourism from China ramps up, we think that it will have a positive effect, but we have been restrained in factoring this effect into our plans. For the full year, we assume these sales will be mostly around the same level as last year, but they could end up somewhat higher.

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