

November 7, 2023  
Lion Corporation

## Analyst Q&A (Summary)

Nine Months Ended September 30, 2023

### **Consolidated Financial Results and Forecasts**

Q: You mentioned that the results for the first nine months were weaker than expected, but which specific segments or fields struggled and by how much?

A: Core operating income was behind forecasts by approximately ¥2.0 billion. Of this, about ¥1.0 billion domestically was due to the poor performance of *SOFLAN Airis*, about ¥500 million was due to lower sales in other categories, and the remainder was mainly due to higher-than-expected competition-related expenses overseas. Regarding *SOFLAN Airis*, although we aimed to nurture it by updating its commercials in August, shipments from the Company remained sluggish in the third quarter (July to September).

Q: In light of performance in the first nine months, how will you return to higher level of profit in the remaining quarter (October to December) and from next year onward?

A: In the short term, we will work to efficiently collect profit on our prior investments in *NANOX one* and *SOFLAN Airis* while controlling additional expenses, as well as reducing costs wherever possible. In the medium to long term, we recognize the need to strengthen portfolio management and sharpen resource allocation. For low-profit areas, we intend to improve efficiency by reducing the number of SKUs and other measures.

Q: The impact of raw material prices on profits in the second half of the year was estimated to be ¥3.5 billion. Has the forecast changed in light of recent raw material market conditions?

A: In the third quarter, raw material prices had a positive year-on-year impact on profit of ¥1.6 billion, in line with expectations. We expect this factor to continue contributing positively to profit at the initially expected level in the remaining quarter.

### **Performance in Key Segments**

Q: Competition-related expenses increased by ¥1.6 billion in the third quarter. How does that break down in terms of domestic and overseas businesses?

A: It is approximately an even split between the two. Domestically, while we are investing in fabric

care with new products, sales are struggling slightly. As such, we believe that curbing expenses in the fourth quarter will be necessary to improve profitability. Our largest increase in competition-related expenses overseas was in China. This increase was greater than expected due to the expansion of sales in offline sales channels.

Q: What were the factors behind the decline in sales in oral care? When is a recovery expected?

A: In oral care, sales declined year on year in the third quarter, mainly due to the impact of shipment suspensions of some toothpastes, restrained sales promotion of low-end toothpastes, and the absence of the boost to sales from the August 2022 launch of *CLINICA PRO* toothpastes seen in the previous fiscal year. Regarding the suspension of toothpaste shipments, we have covered the space on store shelves with other products, and our market share has not been affected; we expect sales to recover in the fourth quarter and view this impact as transitory.

#### **Other**

Q: Please tell us about the total and breakdown of sales attributable to inbound visitors to Japan in the first nine months of the year.

A: Sales from inbound visitors for the first nine months of the year are estimated at approximately ¥4.5 billion. Sales in the first half of the year were approximately ¥2.8 billion, and the pace of increase has accelerated in the second half of the year. Sales of OTC drugs accounted for approximately 70%, with *Kyusoku Jikan* and *PAIR Acne Cream W* proving popular.

Q: While other companies are struggling in the difficult market environment in China, Qingdao Lion is seeing double-digit year-on-year growth. Can we expect further growth, especially in the oral care field?

A: In oral care, we believe we can grow our business by increasing our market share and enhancing our ability to develop products that meet changing needs, such as rising health consciousness and aging populations. One change that may affect us in the short term is the legal regulation on toothpaste that came into effect in China in November. We are advancing preparations for a prompt response.

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