

Analyst Q&A (Summary)  
First Half Ended June 30, 2025

**Core Operating Income**

Q1: What factors led to core operating income outstripping the forecast by ¥2.1 billion?

A1: Gross profit was driven by stronger than expected sales of new high value-added products in the beauty care and living care categories, as well as an increase in the proportion of sales of such highly profitable products as acne medicines in the pharmaceutical category thanks to continued strong demand from inbound tourists. Changes in selling, general and administrative costs were the result of efficiency improvements in competition-related expenses being even more effective than expected, in addition to a ¥600 million savings in logistics costs achieved by reducing inventories through domestic profit structure reform.

Q2: The factors affecting core operating income were different for the first (January–March) and second (April–June) quarters, but what is the breakdown of these in Japan and overseas?

A2: Over the January–March through April–June quarters, the composition of sales improved due to continued upward progress in price revisions, primarily in Japan, in addition to the launch of new high added-value products, leading to gross profit, which had been negative in the first quarter, becoming positive in the second quarter. Selling, general and administrative costs (excluding competition-related expenses) increased due to higher personnel expenses, but logistics efficiency improved.

**Domestic Oral Healthcare**

Q3: Is the 2.7% sales growth recorded for oral healthcare in Japan in line with expectations? Also, what is Lion's approach for strengthening its range of high-end products?

A3: Although sales growth appears to have slowed in the second quarter compared to the first, this is only a temporary demand falloff following the surge accompanying last year's new product launches. In the second half of the fiscal year, we will step up our efforts to expand the high-end toothpaste market through the launch and promotion of new products. In addition, Lion will continue to differentiate itself from its competitors by, for example,

introducing toothpastes formulated with the latest technologies through dental clinic sales before transitioning these products to general retail channels over the medium to long term. We also plan to revitalize the toothbrush market by stepping up sales promotions, including retail campaigns to encourage toothbrush replacement.

## **Overseas Business**

Q4: Overseas growth seems to be showing signs of slowing down. What happened in the first half, and what is your outlook for the second half of the fiscal year?

A4: In China, growth slowed, due in part to our strategically maintaining midrange toothpaste prices, but, having identified growth areas and changes in the environment, we have developed strategies for each country, such as focusing on high value-added products like *CLINICA* and *SYSTEMA*. In the second half, we will strive to achieve both higher sales and better profitability supported by the contributions of the newly acquired Merap Lion along with the further clarification of targets and expansion of distribution to key management chains, thus achieving our forecasts. Because South Korea has been significantly affected by declining exports, we are also considering exporting to other countries and will work to recover sales by focusing on developing hand soaps for the domestic South Korean market.

Q5: What are Lion's future growth strategies for China? Will profitability continue to be the main focus?

A5: Against the backdrop of macroeconomic factors, price polarization is progressing and, in order to avoid excessive price competition, we are pursuing a strategy of maintaining brand value over short-term sales increases for the midrange *White&White* brand, which previously had been a driver of growth. High value-added products such as *CLINICA* and *SYSTEMA* both saw double-digit growth in the first half of the fiscal year. As we move forward, we will aim for profitable, sustainable growth by further strengthening the high-end segment.

## **Profit Structure Reform in Consumer Products**

Q6: Can you clarify what you meant when you said that logistics efficiency contributed ¥600 million, and what is the outlook for the future?

A6: Thanks to our efforts to reduce inventories and improve logistics processes, including with DX, we were able to reduce costs for both storage and transportation. We started reducing inventories in the second half of the previous fiscal year and, while the effects of these efforts will not be as obvious in the remaining half of this year compared to the first half, we will continue working to improve logistics efficiency with the end goal of reducing inventory days by 30% by 2027.

## **Full-Year Performance Forecast**

Q7: What was the reasoning behind revising the factors affecting core operating income in the second half of the year?

A7: In the second half of the year, we are expecting the impact of raw material costs to be more positive than initially anticipated. However, given the sales trends in the first half of the year, we plan to invest more aggressively in competition-related expenses (advertising expenses) in focus areas and brands than originally planned. We are examining our framework for the second half and will strive to increase sales in growth categories while maintaining profitability improvements through the shift towards high value-added products.

Q8: Regarding the income items presented below core operating income in the second half of the fiscal year, when will the gain on the transfer of *REED* and the gain on the step acquisition of Merap Lion in Vietnam be recorded?

A8: We expect to record the gain on step acquisition from the 100% acquisition of Merap Lion in the third quarter and the gain on the transfer of *REED* in the fourth quarter, depending on the timing of the closing. Although the gain on the transfer of *REED* was not factored into the forecast made at the beginning of the year, it will have minimal impact on the Company's consolidated business performance.

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