



Unicharm Corporation

Q1 Financial Results Briefing for the Fiscal Year Ending December 2021

May 14, 2021

Question & Answer (Summary)

Q: Is the receipt of the insurance money explained at the beginning the insurance money of the Ahmedabad factory in India? And where is the insurance money recorded in the accounting?

A: The insurance money that we received in the Q1 was from the equipment that was being installed at the Ahmedabad factory, which burned down last June. This insurance policy is different from the insurance policy which covers the whole factory in India, because it covers the installation and delivery from Japan. Also, because the process was carried out by a Japanese insurance company, they responded relatively well, and the payment went smoothly. The insurance payment was recorded in accounting terms as other profit.

Q: It was stated profits were higher than expected, but how much higher were they than expected? What was the estimate of core operating profit in Q1?

A: We do not manage quarterly in our company. We feel that you should think that it is about 1 to 2 billion higher than the half-year management plan.

Q: I heard that for the Japan business, pet-related products performed well, and Clean & Fresh (C&F) business saw a double-digit decrease in sales. Could you tell us the figures for the Q1 by category in Japan?

A: Sales increased by a little less than 10% for adult diapers. Sales decreased by roughly 15% for feminine care. Sales increased by a little more than 10% for Pet Care. Sales decreased by a little less than 10% for Baby Care. Sales decreased by nearly 20% for C&F.

Q: Then, the special demand from last year dropped out to an extent, but the areas where you are focused on in the medium-term plan, such as pet products and adult diapers, are growing steadily. Is that correct?

A: Yes.

Q: In some regions, global brands like P&G and Kimberly-Clark have announced price increases due to rising costs. You mentioned earlier that higher raw material costs would have a greater-than-anticipated impact on H2. I think it'll probably be difficult to raise prices in Japan, but have you considered doing so in other regions? Please tell us a little more about your policy on how to respond to rising raw material prices.

A: The situation varies significantly from one country to another. We will, of course, be monitoring the moves by competitors, and we will raise prices when the circumstances allow us to do so. In other regions, too, we will be proposing the appropriate prices, especially at the time of product renewals or new product releases.

Q: Are there countries where price increases are easier or more difficult?

A: It's relatively easier to raise prices in Brazil. Also, it depends on the category, but it's easier to do so in ASEAN countries. Unicharm mainly operates in the premium diapers market, which makes it relatively easier to raise prices to some extent.

Q: You haven't decided on price increases at this point, but you plan to do so starting in H2 if it's possible. Is that correct?

A: Yes. Depending on the country, consumers are switching to the lower-priced lineups. Therefore, we will be monitoring their purchasing behavior to decide whether to increase prices or not.

Q: There was a question earlier regarding the overshoot in profit. Did sales also overshoot the plan by a little?

A: No, sales were slightly behind the plan.

Q: Then, what were the factors that caused profits to exceed the plan?

A: First, the raw material prices were still low as of Q1. We procured the raw materials when they were still inexpensive. This has a positive impact of around JPY0.8 billion. We experienced increased sales, especially for high-margin products in Japan. Hygiene-related product sales grew robustly under the pandemic in Q1 of FY2020, but the trend continued in Q1 of FY2021. The change in product mix resulted in an improved profit structure.

Q: What you mean by JPY0.8 billion is that raw material costs were JPY0.8 billion lower than the plan. Is that correct?

A: No. Compared to last year, it's the change from the same period last year.

Q: I heard that the profit progress this time exceeded 1 billion to 2 billion yen, but please let me know if there is anything other than changes in raw materials or product mix.

A: The other factors include general business activity expenses. For example, there were less store activity expenses compared to the same period last year. Obviously, expenses for business travel also fell. This is mainly in Japan, but last year during the period from January to March, our activities were still being conducted, including in January and February. The allocation of those expenses resulted in lower costs.

Q: Regarding raw material costs, do you think that the lower-than-anticipated prices will last into Q2 and beyond? Or do you think that the conditions will be tougher from Q2? Also, how much of a negative impact raw material prices would have in total?

A: As for H2, at our company, we mainly negotiate prices every half a year. We're in the middle of those negotiations. We still don't have a clear outlook of the amount of impact, so we can't say that here. But we know that the situation will be extremely tough. In Q2, costs will gradually rise compared to Q1. There will be some benefits from that, so obviously, in terms of sales, we hope to ship products for H2 in advance during H1 as much as possible.

Q: How much were mask sales? Are there any problems with inventory in terms of masks?

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A: We expect mask sales to increase by JPY1.2 billion YoY. Demand was very strong the same period last year, but we didn't have the supply capacity to meet all the demand, so we couldn't ship enough masks. We prepared the supply structure after that, and we now have a greater supply capacity. As a result, we expect a little less than 30% growth in mask sales compared to the same period last year.

Q: It looks like Q1 results were better expected. Do you think the full-year forecast is achievable or that you could exceed the forecast?

A: Yes. We expect a sharp rise in raw material prices, and that is the factor that needs to be addressed in order to achieve the full-year target. But we have been taking measures, so for now, we believe that the initial earnings forecast can be achieved.

Q: I'd like to ask about the sustainability of mask sales. I believe Q1 sales were around JPY5 billion. There wasn't much of a difference from Q1 to Q2 last year, so this Q1 sales of JPY5 billion will likely last for the rest of that year. Is that correct? If that happens, then I think the Company would actually overshoot the sales growth target of around 15% by a little. Please tell us about the sustainability of mask and wet wipe sales.

A: Sure. As you just mentioned, we think that the Q1 sales can be sustained, given that our production is continuing to run at full capacity. Also, we are receiving some inquiries from overseas. The amount will not be that much, but we think we will likely see increased exports from Japan. As for wet wipes, the decrease in sales in Q1 was partly due to the slight buildup of distribution inventory during H2 last year. That said, the current level of sales will likely continue.

Q: I believe there were about 5 billion sales of masks in 1Q, but since there was not that much difference in 1Q and 2Q last year, is it all right to have an image that these 5 billion figures will come out every quarter in a year? I believe that your company's plan was designed to increase revenues by about 15%, so I think there will be some slight upswing. Please tell me about the sustainability of the plan, including wet wipes.

A: The supply of masks is continuing at full capacity, so I think we can continue this 1Q situation. Also, since there are inquiries from overseas, I don't think the amount will be that much, but I think exports from Japan will also increase. As for wet wipes, the amount is decreasing a little now, partly because the distribution inventory increased a little in the second half of last year, but I think it will remain at the current price level.

Q: Is it going to be a plus this year because the growth and market scale of masks are becoming bigger and bigger?

A: Yes. I believe that masks are more acceptable in terms of our company's strength and differentiation.

Q: Earlier, you mentioned that mask sales in Japan have increased when explaining the product mix. I believe feminine care sales were down somewhat, so the product mix improved from last year because of the growth in adult diapers and masks. Is that understanding correct?

A: Yes. Another factor is Pet Care. The decline in sales of feminine care has a negative impact on profit, but the growth in other products will likely offset that impact.

Q: In Thailand, I believe there was special demand just like Japan during Q1 last year. But sales continued to grow in Q1 this year. What are the reasons for this growth? I believe that the spread of the pandemic is ongoing in Southeast Asia. Please update us on your views about Thailand.

A: As you say, the results are polarized in Thailand. There are 2 companies in Thailand, Unicharm Thailand, which is a subsidiary of Unicharm that existed from before, and DSG, which we acquired later. DSG results were solid, and in total, sales in Thailand turned positive. DSG offers a product lineup that targets the more

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economical price point. Therefore, the results show that the affordable product lineup is currently growing in the Thai market.

Q: Do you see any particular risks in the current spread of the pandemic? The overall economy is also not that strong. Do you think DSG could serve as a driver that can pull you all the way through to achieve the full-year target?

A: Yes. The situation around the COVID-19 pandemic is unpredictable, but it hasn't led to any sudden stops in hygiene-related products. Even in regions that have imposed lockdowns, we have been able to continue to sell these products. Therefore, we think it is unlikely at this point that the spread of the virus would have a material impact.

Q: I would like to re-confirm whether there have been any bottlenecks in business operations in other key countries of the ASEAN region. That is, even after April. And the situation in India. I would like to know more about India. You said that shipments were made from Indonesia during Q1, but supply was still short. Should we expect these supply shortages to continue in the future, or will exports begin from other countries so that the supply will catch up more? Please tell me whether operations are going smoothly even amidst the resurgence of COVID-19 cases.

A: The situation in India is tough due to the rapid spread of the virus. However, as I stated earlier, there hasn't been an impact on hygiene-related daily necessities, given that the lockdown is not imposed on stores. As long as the products can be delivered to the stores, they can be sold. Supply constraints had emerged due to the fire incident in India. But ever since last year, we have been gradually increasing sales of products imported from other countries. Therefore, we expect sales to grow steadily from Q1 onward in Q2 and Q3, as we have factored into our plan. In particular, we are scheduled to complete the construction of the Neemrana plant in the later part of 3Q, which will start to contribute to the supply. Even looking at the latest status in April, the single-month sales in April was nearly 120% of last year in Thailand, and sales also grew almost in the double digits in Indonesia. Especially in India, the whole country was completely locked down in April last year, including even our factories, so the situation was extreme. Compared to that, sales have increased by nearly 200%. Sales have also increased in Saudi Arabia and the Middle East, at around 105% and 106% of last year's sales, respectively. Sales are largely unchanged in China. Overall, there aren't that many regions where sales declined compared to April last year. Sales have also been steady in Myanmar, albeit the impact of the amount is insubstantial.

Q: Could you also talk a little about the situation in Vietnam? You mentioned before that Kimberly-Clark had been aggressively increasing its market share up to around the beginning of last year. After that, you introduced new products, too, and said that the market share had settled down. The growth rate in Q1 was about the first half of the single digit, and I thought you could regain share a little bit more. So, could you tell us what it's like right now in the Vietnam market?

A: As you just stated, Vietnam sales have increased 8% YoY denominated in local currency thanks to the recovery in baby care products. You mentioned that sales growth was in the first half of the single-digit, but that was due to a large decrease in sales of tissue products, which we used to manufacture. That's why sales growth was in the first half of the single-digit in total. To give you the breakdown, baby care sales increased by 8%, healthcare and adult diaper sales increased by 16%, and feminine care sales increased by 2%. We believe all of these products are recovering.

Q: You said that health care sales increased by around 10%, mask sales you mentioned earlier is also included in this number? Was there a rebound in sales for adult diapers?

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A: Yes, mask sales are included in the number earlier. Rather than a rebound, adult diapers have been positive. There was a slight rebound in store sales, but commercial sales were stronger in Q1.

Q: Looking at sales trends of masks at stores, it seems sales have dropped sharply at stores, even though they may have increased for commercial or corporate purposes. Could you tell us the store sales weighting last year and your plans for how much the sales weighting of commercial sales would increase this year. I would like to know if there are confirmed sales in commercial routes that would certainly fill the gap caused by the decline in store sales.

A: Store sales have decreased slightly compared to the previous fiscal year. But there have been some sales, and sales have not declined as much as we thought. Up to now, we have continued to increase our market share in store sales due to our substantial supply capacity thanks to ongoing production at full capacity until recently. We have raised our market share to around 14%. We have raised our share by around 2 pp, because it was around 12% at the end of last year. We think it is possible that we grow store sales for some time, because there are still spaces that aren't filled yet, such as convenience stores and drugstores. For commercial sales, but the competitive situation is actually tough right now. There are low-priced versions made in China. The current market is accepting those low-priced products. We will work to supply cost-competitive products, but we do not expect commercial sales to account for a high weighting of mask sales. Rather, we are focused on striving harder to increase store sales. We think there is still significant room for growth, so we will work to expand this market.

Q: I think it goes without saying that Unicharm, which is the largest player in this market, will increase its market share if supply and demand normalize. However, when looking at weekly sales in this market as of March, it seems like at this rate, sales will fall by around 30% on average. Even if you were to increase your share in that market, it would be difficult to offset the overall decline in sales. That's why I interpreted that your sales are growing significantly through commercial channels. If store sales decline by around 30%, it means that won't be a problem of not growing commercial channels?

A: We will work to gradually increase our market share with the new products scheduled to be released in stores going forward. There hasn't been any cannibalization over the SMART COLOR mask that we released the other day, and we have been able to increase our market share. We gained roughly one percentage point of market share as a result of that new product. In that sense, we will probably release a new mask around the summer, so we will grow sales by further increasing our market share.

Q: The mask you released where you can see the other person's face went instantly out of stock. Does that mask contribute a lot to sales?

A: Those masks are hand-made. So, it's difficult to sell a large volume of them. The demand is really strong, though.

Q: Those masks don't contribute to the product mix by any chance?

A: No, not at all. They don't contribute to the mix.

Q: Mask sales have increased YoY, but if you compare Q1 sales with Q4 sales, then it doesn't seem like sales have grown that much. Could you explain the sales trends broken down by store and commercial sales? In particular, I think there have been effects of increased production since December, so could you please explain about that?

A: We have been producing masks around the clock, so I think part of the reason was the distribution inventory. As stated earlier, we newly released SMART COLOR, and there is also the issue of sales channel

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related to commercial sales. We are conducting new initiatives as well, such as sales for corporate storage or disaster preparedness. We plan to increase mask sales on the whole, including those kinds of sales.

Q: What are your thoughts on raw material prices over the full year. Originally, you had seen the negative impact to be JPY2.5 billion over the full year. But, earlier, you mentioned you now expect it to be JPY3 to JPY3.5 billion in H2, whereas you assume positive factors from lower raw material prices to remain in play during H1, amounting to around JPY0.5 billion to JPY1 billion. Compared to that assumption, the positive impact for Q1 alone was already JPY0.8 billion, meaning that raw material prices had a more positive impact than you expected. Earlier, you talked about JPY1 or JPY2 billion. Is it correct that you originally assumed that raw material prices would have a positive impact in Q1?

A: We initially expected that raw material prices would fall during Q1 of H1. But the prices fell even lower than that.

Q: I understand. What you mentioned earlier about JPY0.8 billion was compared to the same period last year, that profit was up by several hundreds of million yen, and the benefits of low raw material prices were larger than you expected. Is that understanding correct?

A: Yes.

Q: A little less than JPY1 billion. Sales came in slightly behind the plan. By how many hundreds of millions of yen did sales fall short of the plan?

A: They were largely in line with the plan. Just several percentage points. Really, just a little.

Q: Could you tell me about the 3% sales growth in Indonesia broken down by baby and feminine products?

A: Baby product sales were up 2% denominated in local currency. Feminine product sales were largely unchanged. Health product sales were up 15%.

Q: Do you think that the annual plan can be achieved, given that the virus is continuing to spread in Indonesia?

A: As with Japan, the situation around the virus is constantly in flux in each country, but the proliferation of vaccine shots will reduce those risks. So far, we haven't heard of any instances where the spread of the virus has caused rapid declines in store sales or stoppages in logistics. Therefore, we think it is unlikely that the virus would cause the business to deteriorate sharply.

Q: I see. What are your views on the growth in the Indonesia market denominated in yen? How much do you expect denominated in local currency?

A: Slightly over double-digit growth denominated in yen. We plan for growth of 10%-plus. 5% in local currency.

Q: How much was the operating income margin in China? I thought it would improve compared to last year, because of the growth in feminine care.

A: China as a whole, about 24% in Q1.

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