



Unicharm Corporation

Q2 Financial Results Briefing for the Fiscal Year Ending December 2021

August 4, 2021

Question & Answer (Summary)

Q: In the first quarter, sales grew by about 30%, but sales grew by 12% in the first half of the year, and probably the second quarter was either flat or slightly down. What is the background behind this? Could tell us how to look at the second half of the year.

A: Comparing the second quarter YoY, in the case of masks, sales have decreased slightly. An increase of 12% in the first half of the year. The market itself is no longer in the abnormal state of panic-buying, where extremely large quantities of masks are kept in stock at home. However, since we do not see a clear post-coronavirus future, the size of the market itself is more than double the normal volume. We expect this situation to continue for a while. We believe that we will be able to achieve the same level of double-digit sales growth for the full year compared to the same period last year. Also, in ASEAN, Asia, Japan now has some surplus supply capacity, and we have just introduced new plants and increased our manufacturing capacity by 20%, so we will be able to use that capacity to our advantage in Asia, ASEAN, and the Middle East. In the second half of this fiscal year, we are planning to export masks in earnest.

Q: For the forecast for materials, it is probably expected to increase by JPY8 billion or JPY8.5 billion for the full year? In the second half of the fiscal year alone, UC are expecting a cost increase of about JPY10 billion. Please tell us about the oil market conditions that are the premise for this forecast, and whether or not there is any possibility that the same magnitude of decline in profits will occur in the first half of next year.

A: For the view of the oil market, it will maintain the so-called plateau state, the current high level. There is also the point of supply and demand, and the so-called policy adjustment of production volume, which is difficult to understand, but the assumption is that costs will remain at the current level.

In the second half of the fiscal year, as you pointed out, the budget included an increase in material prices of almost JPY10 billion. We were able to realize more profit than originally planned in the first half of the fiscal year ahead of schedule, or to be more specific, we were able to sell new products ahead of schedule and achieve more aggressive sales.

As for the next fiscal year and beyond, regarding whether or not material prices will rise further, there is the oil situation, but the assumption is that the current situation will remain flat. We are not assuming that there will be a sudden recovery or a sudden slowdown in the economy at this time. In fact, we expect that the lockdown caused by the coronavirus and the so-called restrictions on purchasing behavior will gradually ease, which will be included in the FY2022 plan, although we will refine the plan in the future. Rather, we feel that it will recover and sales and costs will settle down. In addition, we will continue to introduce new value-added products to improve the product mix, which raised the profit margin in the first half of this fiscal year, and this has been very well received by distributors and consumers in Japan and Asia. As we have stopped selling disposable baby diapers at a discounted price in China, we will continue to focus on areas where profits are important. We will also aggressively develop new products in growing markets, including relatively price-appealing products, to meet the purchasing power of consumers. There is a pattern that has been successful in the past, and we would like to grow sales and absorb costs through such products. We believe that we can plan to maintain a top-line growth of around 7% CAGR.

Q: For materials, there is an additional JPY6 billion. What kind of measures are UC are going to take? Also the amount of the swing in the first half of the year, could you to explain how UC is going to pay back this additional JPY6 billion, including the amount.

A: On how to absorb the additional JPY6 billion, regarding specific measures, we will expand our market share to obtain the effect of increasing sales and secure profits through new products and renewed products

Also, depending on whether it is a new product or a renewal product, we set a premium price for a new product, or a revised price for a renewal product, thereby securing profits. There is a project to reduce costs, which is a constant cost reduction project that we do. As we mentioned earlier, the upswing in profits in the first half so the profit amount for the first half of the fiscal year was higher than expected due to the JPY6 billion cost increase, which is almost offset here. The amount that exceeded the initial internal plan is just about the same, and we believe that we will be able to absorb this amount in the second half of the fiscal year, unless sales drop drastically. For the trend of yen depreciation. Given the current macroeconomic and external environment, we do not expect the yen to appreciate to any great extent in the next 6 months. Considering these things as well, it can be absorbed.

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It may seem unreasonable to say this when the infection is spreading again in Asia, but we believe that there will be an increase in places such as China where the general consumer lifestyle has already returned. For China, India, Indonesia and Thailand, once these countries recover, the overall outlook is relatively positive.

Q: Still worried about the current situation of the coronavirus in Southeast Asia. At the briefing of another company, they have stated that the situation has suddenly deteriorated since June. Would like to know whether the current situation of the coronavirus in Southeast Asia is okay, in terms of your company's sales. Only quantitative information will be fine as well.

A: The lockdown of plants and other effects had a positive effect in Japan, and the coronavirus had more of a positive effect, but in Asia, sales were down, and in the first half of the fiscal year and the interim, sales were negatively affected by about JPY4-5 billion. We don't really feel that the situation has suddenly worsened since June, and although there have been some problems in each country and area, such as Myanmar and Indonesia, the core of Unicharm's business in Asia is the Chinese market. China is doing very well at the moment, and in India, as long as the supply capacity recovers, if these 2 countries, China and India, can lead the way, at least, we will see that the negative factors will be relatively more positive than the mid-term period or the situation that we talked about today. The factory, which was destroyed by the fire in India, will be reopened next spring, so it will be difficult to recover during this term, but on the contrary, the supply chain from other countries has become relatively stable. I am sorry that it is qualitative, the negative effect on sales was about JPY5 billion at most.

Q: It mean that we don't have to worry so much about the future for now?

A: That's right. However, there is a mutant virus that is locally occurring in China. The outbreak is particularly centered in Yangzhou, and the government is declaring lockdown based on the number of infected people in China, which is rather localized. Unicharm's Jiangsu factory, which is located in Yangzhou, northwest of Shanghai, has been closed since yesterday. Unicharm's factory will not be affected by the closure for about a week, and the other two factories, in Shanghai and Tianjin near Beijing, are still in operation, so there are no problems with sales at this point. However, if this were to continue for a long period of time, there is a risk that the product supply capacity would be interrupted, depending on the product. However, so far, the plant has been shut down for two days, but there have been no problems so far.

There was such a thing in the second quarter, so while absorbing these things, if we can expect the frequency of such occurrences to decrease gradually, we will be able to count on the effect of increased sales in the second half. At the moment, we are expecting a short-term recovery from the impact of the lockdown of Yangzhou in China, which started the day before yesterday.

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Q: Was wondering if the cost of containers and other expenses were particularly high this year, especially since they are currently traveling between India and Indonesia.

A: Yes, you are right. Logistics costs have also gone up, as well as storage costs. The storage cost of storing material inventory has also gone up this year, especially since we don't have containers readily available, so if the coronavirus has a gradual soft landing, the cost will go down.

Q: With regard to business in Asia, some people are losing their jobs due to the coronavirus, so there is a desire for lower prices. Looking at the situation in the first half of the year, did not see that UC was responding to low prices, but rather UC was adding high value and were doing very well. In the end, did it matter much? Could you tell us about consumer trends?

A: As for consumer trends, there has not been a shift to lower prices at all, as we had expected. However, it is rather the competitor's low-price offensive that may be pulled as the price. Even in Japan, there are some manufacturers that are running PayPay campaigns. However, Unicharm has already announced a policy of premium disposable diapers, especially for babies, and not chasing volume. We are not following our competitors, and this is also the case in Asia, especially with baby diapers. There is no need to think that the profit margin for baby products will deteriorate any further.

Q: For the China baby care market, is competitor gaining a large market share by adding value? Are competitors increasing their market share by reducing prices?

A: If you only look at the current changes in market share, it is mainly because of competitors' price cut offensive campaign such as 618, last fall's Singles' Day, and such channels are e-commerce, and competitors have maintained the policy of earning volume at such times. In the case of Unicharm, in response to the so-called year-end campaign, we revised our policy to where we narrowed down the conditions, and to get large volume. Our market share has been increasing, but the profit has gone up more. We would like to go with this.

Q: Would like to know about the sanitary situation in the Chinese market. UC sales are growing very well this time as well. Would like to know what the growth rate was in terms of profit, and how the profit margin changed from the previous year. For local Chinese manufacturers, especially in the EC market, they are facing intensifying competition in the sanitary products market. However, the situation from UC's point of view, it may be different, so would like to ask UC to summarize the situation, including the competitive environment and the measures UC are taking.

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A: In terms of profit growth for feminine care in China, sales have increased by about 21%. In local currency, sales increased by 12%, and in terms of operating income, profit increased by about 9%. Since the CNY was high, in JPY terms, profit was 18%. For the overall China business on JPY terms, sales was 17% and profit was about 21% respectively which is approximately China feminine care's performance. In terms of competitive environment, we have syndicate data for the market share in China as of June, and if you look at the market share of the major Chinese company on a YtoY basis. Its market share has dropped by about two points, but it is still number one at 20.2%. It is still very strong, and their coverage area is overwhelmingly wide. Unicharm's current policy is to be the strongest number two, so 19%, which is quite a close match. Third is an American company, has around 15% market share. Roughly, these are the three companies that have taken more than a double-digit market share. There are no significant fluctuations in prices. Unicharm has raised the average unit price by about 3% when compared to the average unit price in premiumization in the whole market. The major company in China has also raised its price by 1%, so from UC point of view, feminine care in China is a stable source of profit for each company, and when we look at the policies of each company, there are many new premium-type products and products that follow Unicharm's lead. Such as a pants-type napkin. This is not the first time that local manufacturers in China are competing with each other to produce similar products that are a hit. However, compared to the baby care, we feel that the competition in the feminine care is quite healthy. There are many premium products such as pants-type napkins and similar products that competitors have followed Unicharm, but the feeling of intensifying competition is not new. However, it seems that the design and functionality are being actively improved in order to improve the image, especially for young people, like Generation M, and Generation Z.

Q: UC's stance on the battlefield has not changed at all from the one of driving premium-oriented products. In the first half of the fiscal year, the growth rate of sales was a little higher than the growth rate of operating income, so the margin may have dropped a little, but is it correct to think that this is only because there was aggressive investment, including advertising expenses, in the second quarter?

A: There were many new products, so that is correct.

Q: Could you tell us a little bit more about whether or not there has been any change in the way the other side is fighting in the Indonesian market since Softex was bought by Kimberly?

Q: Softex and Kimberly's total market share of baby products in Indonesia has increased by about 3 points for about 32% share. Unicharm is up only 0.4 points and is about 47% share which we believe is due to the Softex acquisition. As for prices, for Softex, there are many relatively low price ranges. In terms of market share, so there is no major change in the market share structure as of June.

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Q: Is our understanding correct that Indonesia baby care's competitive environment was calm?

A: That's right. The baby care market in China is occupied by hundreds of local diaper manufacturers in China, and about 40% are global players including major Chinese players, so the Chinese market has a very unique share structure. Meanwhile, in the Indonesia market, Kimberly Clark has acquired a major local company Softex, but the situation is not as in China.

Q: Local players in places other than China, such as Vietnam, Thailand, and Indonesia, are not trying to sell their baby care products at very low prices?

A: Yes, that is right.

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