



## Unicharm Corporation

Q3 Financial Results Briefing for the Fiscal Year Ending December 2021

November 5, 2021

### Question & Answer (Summary)

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**Q:** Could you explain about the soaring prices of raw materials?

**Shimada:** One of the items that may be of interest to you is the soaring cost of materials. The amount that we initially expected for the year was an increase of JPY2.5 billion compared to the amount for the same period last year.

As I mentioned at the time of the announcement of the interim financial results for the second quarter, we knew at that time that material prices would rise sharply in the second half of the year, and we predicted at that time that they would be JPY6 billion higher than originally planned.

As of the end of the second quarter, sales were JPY1.5 billion higher YoY. It was positive due to the impact of increased profits. In the second half of the fiscal year, as I explained earlier, costs increased by approximately JPY4.7 billion over the 3 months of the third quarter. In total, we have achieved a positive result for the cumulative period, with a cost increase of JPY3.2 billion. Therefore, for FY2021, we expect that costs will be JPY6 billion higher than the initial plan that we had assumed in the interim period. This is online. As for how we will absorb the impact, we are bringing forward as much profit as possible in the first half of the fiscal year, so our profits are higher than in the first half of the fiscal year when we originally planned. We expect to be able to absorb the increase in material costs by now, as this amount has already exceeded JPY6 billion.

For our internal strategy and management plan for the next fiscal year, including material price negotiations, we are in the middle of the decision process, though, including the budget. The amount of money we have in mind is increasing day by day, but it is between JPY10 billion and JPY15 billion. The question is how to absorb these things. We are planning to raise prices in countries where we can, where the customs and consumers recognize the value. I think the most difficult market is the Japanese market. I know it is difficult to make all products uniform, but we are currently discussing the possibility of renewing or raising the value of the products and having them recognized for their value. We still have a lot to discuss, and we would like to proceed with caution while listening to the opinions of consumers and distributors and paying attention to activities of our competitors. There is no doubt that we are in a very difficult environment in terms of profits.

**Q:** The company is committed to increasing profits in the second half, but is the company planning to increase profits in the next fiscal year 2022?

**A:** We are now aiming to increase profits. We are assembling a strategy.

**Q:** It relatively easy to operate in Asia. The price in Japan is the biggest risk factor, and since you have increased your sales during coronavirus, do we not need to worry too much about our Asian operations?

**A:** That is right. When we look at the original market expansion by category, there are differences between countries, but in general, the market is doing well. In India, the Nimrana plant will gradually start operating from the beginning of next year, and there is no longer any concern about the supply side, so growth will be at a cruising speed. We are currently growing not only baby products, but also feminine care and adult products.

**Q:** You are assuming that sales in Japan will grow by 4% or 5%, but first of all, sales in Japan increased by 1.4% in the third quarter cumulative period. Adult diapers and pet care were in the high single digits and plus, but what about baby care? In the 3 months of the third quarter alone, I think personal care in Japan saw a decrease in sales and profits, but what happened? I don't know what will happen to the demand for masks next year, but I would like to know whether or not Japan will be able to grow next year even more than this year. Can you give us some background on the background behind the 4% or 5% growth in Japan next year?

**A:** The main reason for the decline in sales in Japan in the third quarter was cross-border sales. Compared to last year, we are exporting baby care products from Japan to China as planned, or rather, we are gradually reducing cross-border sales and increasing the number of Moony products produced in China, which is having a significant impact on sales in Japan. However, on the Chinese side, the profitability of baby care is improving because of this. Sales are decreasing in Japan due to this. Feminine care or adult use, this area is over 5%. For Feminine care, we have seen a growth of less than 10% in the past 3 months, so there is a tendency for the market for feminine care to shrink a little due to COVID-19. The market has returned to normal and the market share is steadily increasing, so we have high expectations. Health care is also a category that has been growing at about 10%, or 7% or 8%, and we expect it to continue to grow as well. For Pet care, in the third quarter cumulative period, we grew by about 10%, and in the third quarter alone, we continued to grow by about 10%. In terms of masks, the cumulative growth rate is 7%, and looking at the growth rate in the first quarter, the second quarter, and every 3 months, there are 2 main types of products: those that are sold in stores and those that are used mainly in hospitals. The number of products for commercial use is decreasing, but the number of products for retail use is continuing to grow. In particular, in the third quarter alone, we saw growth of 120% or 119% in the over-the-counter market. There is also talk of influenza and pollen, and I think we can expect good results.

**Q:** The sales in Japan for the 3 months of the third quarter were down 1%. Can you tell us the numbers for baby, feminine, and adults? What was the growth rate?

**A:** Baby is minus 25. Feminine care is less than 10%, plus. Health care for adults is plus just over 5%. Pet care is 6%.

**Q:** Logistics costs have been negative JPY4.1 billion for 9 months through Q3. Is it expected that this situation will continue? Also, could what are your thoughts for the logistics costs for the next fiscal year?

**A:** The budget is currently being compiled, but the amount is the same as this fiscal year. I think it is unlikely that it will go up in the future, but I think it will stay there.

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Asia's Meetings, Globally

**Q:** I think 7% is the cruising speed for medium-term growth, but at present, excluding foreign exchange, you are at about 5%. The question is, is this what you expected? If not, I would like to know what you think is better and worse than the assumption for each region.

**A:** For CAGR, regarding how it would be by region if we make the 7% assumption. The growth is in line with our expectations, and at the moment, feminine care is leading the way in China, and we are growing faster than expected here. During this mid-term plan, though, we are ultimately looking ahead to 2030. In China, we will invest our resources in adult and pet care products, which are still small in terms of value, and grow them as quickly as possible. I think there are pluses and minuses in the overall situation and in China, but I am hoping that this can be relayed well. In India, we had a slight decline last year in the third quarter cumulative period due to the factory fire, so if we look at the cumulative period, sales increased by 35%. If a certain amount of supply is available, natural growth can be expected here as well. After all, India is where we expect the most growth. And not only for baby, but also for feminine and adults, these things are coming as planned. For Other countries, Thailand is already saturated to some extent, and we have almost 90% of the market share, so it is difficult to achieve significant growth. For Unicharm Thailand, looking at this third quarter cumulative period alone, due to the growth of DSG products, the local currency base was 7.2%, so we believe that the growth here has exceeded our expectations. Especially for adults use. And adult use is growing by 15%. Pet here still has a very small number, but it is growing by about 50%. As a result, we believe that we must continue to increase the number of products for adults and pets. For Indonesia, we grew by 8% in the third quarter cumulative period, so I believe we are able to drive more than the 7% average here. In particular, baby care has traditionally been the focus here. With feminine care now profitable and adult use increasing by 24%, we believe that we can continue to grow while gradually changing our product mix. For Vietnam, has only grown by about 3% in the third quarter cumulative period. We are thinking it might grow a little more. Baby is flat, and a 7% growth in Feminine care and a 15% growth for Adult use. For babies, adults, women, and C&F, Clean & Fresh products, if we can expand such products, we will inevitably see further growth. For Saudi Arabia, we were also able to achieve 7% growth in the third quarter cumulative period. The breakdown is 7% in Baby and 24% in Feminine, so the composition of these products is mostly baby products, but Feminine care is growing. We see that there is still an opportunity for continued growth by changing the balance of each category within each country. It is difficult to grow in Japan and Taiwan, although the scale is a little smaller. Brazil has a weak currency. On a local currency basis, we have grown by less than 10%, which is still a small amount, but we are hoping that this kind of growth will continue. There are some areas that are greatly affected by the exchange rate. On a local currency basis, we had some help from foreign exchange rates in the third quarter, but this does not mean that our growth has stopped, and we hope that we can achieve good growth by changing our portfolio.

**Q:** I would like to ask you to comment on how you are thinking of leveraging Japan.

**A:** The birthrate is declining and population is aging, and the number of children born is declining in Japan and China. Other areas such as adult use and pet are growing, so we need to further expand these areas of growth. With regard to Baby care, we will maintain sales and profits while providing new value.

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(Safeguarding the well-being of each individual)

Capital and business alliance with First Ascent Inc.\* to create a moving experience that enables understanding babies' feelings and comfortably enjoy childrearing



◆ Establish partnership with First Ascent inc. to develop disposable baby diaper based on babies' "cry" analysis, and expand childrearing support service



# First Ascent

Realize the cohesive society where all generations live independently together by supporting each other and respecting boundaries

Promote digital transformation in childrearing  
"Change childrearing through technology"



Improve childcare environment

\* A company that creates new services to enrich the childrearing environment with cutting-edge technology utilizing AI and IoT  
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It's not just about the function of the product, but also about the added value that appeals to the sixth sense. While using digital technology, we have been working with First Ascent Inc., which you can see on the screen now, to add things and DX to our products. I hope that we can make connections in this way.

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(Safeguarding the well-being of society)

## Rollout of products and services toward the realization of social inclusion so that everyone can lead a healthy and sanitary life comfortably



### ◆Innovations to achieve “NOLA & DOLA”



Rollout of products and services that contribute to liberation from various burdens and find joy in life

◆Launched “clear face mask” to improve communication between nursery teachers and children  
At nurseries subscribing “Tebura Toen”\* service that lighten the burden of parents and teachers and reduce infection risk



[ Effects of prolonged wearing of face-mask ]

- \* Unable to learn emotions due to inability to read nursery teachers' facial expressions of emotions
- \* Unable to understand speech correctly due to inability to read lips of nursery teachers
- etc.

\* Flat-rate service of baby paper diapers for nurseries launched to reduce the burden of parents preparing diapers and carrying bulky bags to nurseries.

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Also, Tebura Toen, a subscription model. There are quite a few kindergartens and nursery schools that use this service. I think that if we can provide such services by adding new channels, new ways of selling, and exploring the needs of consumers, it will lead to maintaining sales and value.

**Q:** Could you tell us about the changes in sales in Japan and Asia for the third quarter which was only three months, by category in Japan and by country in Asia? In addition, it is expected that profits will decrease significantly in the fourth quarter. Could you tell us the factors behind the decrease in profits that will appear in the fourth quarter?

**A:** Although it will be based on management accounting, the Japan will be minus about JPY2 billion only in the third quarter which is three months. Of this, Baby care is minus about JPY1 billion. In Health care, the profitability of masks may decline significantly, but it is minus about JPY700 million. Clean & fresh is minus about JPY200 million. As a positive factor, Feminine care is about JPY400 million. Pet care is minus about JPY300 million. As for profits by country in Asia, China increased by about JPY700 million. India is about JPY500 million plus. Taiwan-Greater China about JPY200 million plus. Indonesia is a plus of tens of millions. Vietnam is about JPY 500 million plus. Thailand is about JPY700 million plus. Saudi Arabia is about JPY400 million plus. In the fourth quarter, raw material prices are expected to rise by about JPY5 billion. Originally, in the past, the fourth quarter had sales promotion expenses after the product sold at Double 11 (November 11) since Unicharm delivered the product and then sold it at Double 11, so there was a problem with such discrepancies. Similarly, as we prepare for promotions and logistics ahead of schedule toward the end of the year, logistics costs tend to rise a little, and we have a very weak forecast for the fourth quarter.

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**Q:** This is the same story every year for the Double Eleven (November 11), but are you going to do more than usual this year?

**A:** I don't think we will have to make a big investment in Double 11 to get sales like we had in the past, but if anything, the volume itself will be lower.

**Q:** How much do you see in terms of domestic mask sales in the fourth quarter?

**A:** For the third quarter market sales scale, the actual amount for the third quarter is JPY4.8 billion now, including over-the-counter and business use. I think the fourth quarter will be a little more than the third quarter, so it will be around JPY5 billion or JPY6 billion. The stores have been doing very well. We are still out of stock, especially for smart masks and the like. The number of products for business use has decreased due to the sudden increase in sales last year, but the actual sales in stores are strong.

**Q:** With regard to materials, can you tell us about the actual results for the JPY8.5 billion for this fiscal year, and how they are performing both domestically and overseas?

**A:** Roughly 30% is in Japan. The ratio will be about the same next year.

**Q:** You commented that Feminine care in China, in particular, made a significant contribution to the increase in sales and profits. I would like to know more about the background, or rather, the reason why your company stands out among the many other companies that have been focusing on Feminine care. Or whether the market itself is growing. In terms of penetration rate, it's quite high, so I would like you to explain why this is still going on. Also, could you please comment on the outlook for next year and beyond, and sustainability?

**A:** There are some things that seem to have gone to well in this third quarter, originally, when it comes to feminine care products, it is difficult to cause a brand switch, and they are used for a long time. The competitive environment in the market is a little different from diapers, where you have to constantly attract new users for the age of 2 or 3. In the case of China Feminine care, Hengan is the top in terms of market share and Unicharm is number 2. Others, PG is a global player, but at less than 10%.

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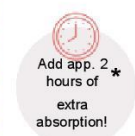
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(Safeguarding the well-being of each individual)  
**New value proposition tailored to  
national and regional characteristics**



◆ Easy, comfortable, and convenient feminine product to be used along with a regular pad



\* The amount of menstrual blood varies between individuals

◆ Pants-shaped pad that integrates a pad and pants, heating napkin featuring warm sensation



Mildly Warm

Strongly Warm

◆ Cool napkin featuring refreshing cooling sensation that reduces stuffy discomfort



◆ The napkin features antibacterial sheet that inhibits 99.9% of bacterial growth, and keeps it completely safe from leakage and smell



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The reason for this is that we are able to frequently launch products that suit China's consumers. As you can see on the screen now, a major factor is that we have been able to frequently launch products that are easily accepted, especially by the younger generation. In particular, shorts-type sanitary napkins were the first product to be commercialized in China, and are now being exported to ASEAN countries and Japan. It is a popular product and the market share is gradually increasing. There is also Hot Dan °C, a napkin with a warm sensation, as shown on the screen, that is something to take care of menstrual cramps, or something fashionable like Center-in napkin brand in Japan. It's also very thin and easy to carry around. We feel that our greatest strength is that we have been able to commercialize products that can be easily accepted by young people by listening carefully to the voices of China's consumers. As for price competition, feminine products are not so expensive per unit compared to baby products, so they are less likely to fall into price competition. And for nighttime use products. That's what's being popular in China now. It's growing. Also, the development of ecommerce, we are gradually growing in the area of feminine care products, and compared to local companies, we think we are better in progress in this area.

**Q:** It was mentioned that the company is going to ask for a price increase in some areas. Please just comment on which areas and if the price shift has already started.

**A:** The region is North America, and our competitors are also raising prices here, so it seems to be a relatively smooth process. We have already implemented a price increase in Australia and India. Thailand and Indonesia may be a little difficult, but we are considering it depending on the category and object. I haven't heard of any price increase in China either. This area may also come up depending on future strategies.

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**Q:** Until the first half of the fiscal year, you stated that sales were in line with the Company's forecast and operating income was JPY6 billion. What is the status of the third quarter of this fiscal year? How much progress the Company has made toward the full-year target, and how about sales and operating income?

**A:** If you look at the third quarter alone, sales are almost flat compared to the plan. For sales. The core operating income has swung up by more than 10%, so it's about JPY1 billion to 2 billion. As I explained earlier, the factors behind the increase in core operating income are that feminine care is doing well. As well as, in the case of Baby care in Japan, sales of products with low profitability are decreasing and those with high profitability are growing, so the product mix is improving the profitability.

**Q:** Isn't the exchange rate about JPY1 billion to 2 billion following the plan? Also, regarding the price increase, I think you mentioned that you will raise the unit price with new products and / or improved products. Did you raise the unit price more than planned? The timing of the price increase was not early, but was it okay to understand that it was as expected?

**A:** Well, the company didn't have a plan for the quarter in the first place, so I'm at a bit of a loss for an answer, but in terms of core operating income, we feel it's about 1 to 2 billion yen higher (although it may be a little higher). ). As you said, it looks like the exchange rate is up by nearly 1 billion yen. In the second half of this year, we have already raised prices in countries where we can raise prices, so there are not many places where we have raised prices especially from the third quarter.

**Q:** About improvement in product mix, which is probably the cause beyond expectations, from this fiscal year to the next fiscal year, I would like to ask about this. First of all, can we assume that the upturn in the current fiscal year is due to the considerable improvement in the product mix? Will you be able to keep the same pace next fiscal year after making so much progress this fiscal year? Looking at the BS, inventories have increased considerably, but I wonder if the so-called leveling and elimination of inventories will not weigh on the next fiscal year. Please tell us about this point.

**Shimada:** As for the increase in inventories, both materials and final goods have increased. Especially with regard to materials, there is a risk of stagnation for the supply chain, so we are preparing for that by stocking up when we can, or rather, we are keeping a slightly thicker inventory to prevent that from happening. As for whether or not this number will decrease, there is no sudden decrease, but rather a gradual decrease. Especially in India, where we are now procuring goods by importing, the inventory will increase because the lead time will be longer here as well. As we switch to domestic production, we expect this to gradually decrease. In addition, when the financial statements are converted into yen, if the yen depreciates, the amount will increase, so it may increase due to such factors.

Up until now, we have grown significantly in Japan and Asia, with a focus on Baby care, but there is a background of a decrease in the number of births in the 11<sup>th</sup> Mid-Term Management Strategy Plan. Baby care itself is planned to improve in terms of margins, but there is no change in the medium- to long-term trend of switching to categories such as Adult care and Pet care. The underlying cash will be earned through Feminine care to further increase profitability here and prepare for the next investment. New countries will not be reflected immediately in figures, but we are considering various options, especially in Africa.

**Q:** I would like you to briefly summarize the situation of COVID-19 in Asia by country. Earlier, you mentioned that you would raise prices where you could. In the past, most of the talk was in the form of price increases due to renewal or new products. As the Company with the top market share, did you change your way of thinking and now you think that you can increase your market share in these times?

**A:** A simple price increase is not that easy in any country. After all it is necessary to have the value recognized. We will review the price each time according to new products and renewal products. Also, the influence of coronavirus on each country is difficult to read. Currently, depending on the country, Vietnam was not

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affected that much by COVID-19, but now the infection is spreading widely (in July and August). Also in China, if 1 area is infected, the city itself or the building itself will be locked down. It's hard to say, though, because the responses are different. I think the only thing we can do is to keep in touch with each other in that way. I don't think there is much of a risk that this will disrupt the distribution of products in stores.

**Q:** You have a certain amount of inventory to cover that, so even if the operation drops a little, you don't have to worry too much about that. Am I correct?

**A:** The factory's work schedule will be shifted as well. Even if it becomes a cluster, the factory will not stop operating, but the teams will be replaced, and the factory will be able to operate. We are taking this into consideration as we go along, so I don't think there will be any major stoppages.

[END]

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### **Document Notes**

1. *This document has been translated by SCRIPTS Asia.*

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