



Unicharm Corporation

Financial Results Briefing for the Fiscal Year Ended December 2021

February 15, 2022

Question & Answer

Q: Are there any uncertainty factors regarding the JPY127 billion, 3.7% increase in profit for the current fiscal year? A disadvantage from higher raw material prices will be JPY17.4 billion, so how much of a disadvantage are logistics costs? The logistics cost will probably be a certain amount, and the disadvantage of high raw material prices will be JPY17.4 billion, so the costs will probably exceed JPY20 billion. How will you cover the costs to get to JPY127 billion?

A: Logistics expenses are expected to increase by JPY5.5 billion. Raw materials will increase by JPY17.4 billion. Sales promotion costs will increase by JPY2.9 billion, but we will reduce JPY1 billion by improving efficiency of advertising costs, and the product mix will improve by JPY8.9 billion. And we will increase JPY26.9 billion by increasing sales volume through increased top line.

Q: Will the recovery in production of baby care, health care, and feminine care in India be a factor in the increase in sales for Fiscal year 2022?

A: Not only for India, but India has greatly recovered from the factory fire. This fiscal year, we have gradually been able to revitalize our factories in India, and we plan to restart the Neemrana factory during the first half of Fiscal year 2022. We believe that we can expect to increase the top line by more than 30%. Other areas like China and ASEAN will continue to be strong. Regarding the impact of the decline in consumption due to COVID-19, social life in ASEAN and Asia has already started to recover from Q4 in a manner similar to normal economic activities. We are planning for this to take effect for this Fiscal year 2022.

Q: Higher raw material prices will cost JPY17.4 billion, and I think it was JPY10 billion to JPY15 billion in Q3. What is the price of a barrel of crude oil you are looking at for Fiscal year 2022? The other day, other companies have announced their raise in prices in Japan starting in March. What are your Company's plans?

A: First of all, the market price of oil is based on the assumption of USD90 per barrel. Although the price is a little high at the moment, we are planning to set JPY9 billion for the full year. As for the price increase in Japan, we have only included a price increase of about JPY1.5 billion for pet products. This price increase is on the premise that we will be selling new, high value-added pet products. What I am explaining today includes only

pet products, not paper products and other categories, including sanitary products, which will be absorbed by improving the product mix. And we are planning to absorb it by increasing sales as well. What is particularly unique about Unicharm is that it raises the price when it comes to new and renewed products, along with added value. This will be a positive thing for distribution, and of course, we will work to increase consumer satisfaction as well. For example, a simple price increase, as is done in the food industry, has not been included in the budget for now.

Q: How much growth do you expect for masks in Japan this fiscal year? With the changes in mask sales, will it lead to changes in margins?

A: For masks, we are expecting a slight decrease in sales this year. In 2021, we have already achieved a 12% increase in sales compared to 2020, but in 2022, we have included a slight decrease in sales in our plan. To be honest, it is difficult to see or predict how much we will achieve, but we have achieved a 12% increase in sales in FY2021, while watching the current, very stable sales trend of masks and increasing our production capacity. We are planning to lower it slightly.

Q: About the price increase for pet products that you mentioned earlier. Is this part of the product mix improvement? Also, other than that, what and how will this product mix improvement be accelerated?

A: The JPY1.5 billion for pet products is included in the JPY8.9 billion improvement in the product mix. For others, based on the premise that consumer activity will gradually return to the pre-COVID-19 level, including in Japan, we have introduced high value-added products in FY2021, such as in Feminine Care, Baby Care, and especially products for mild incontinence in healthcare. In addition, we have plans to introduce new products in the same way in FY2022, so we will increase our top line, and what will bring about that top line increase will be high value-added products. In addition, we have reduced sales of products that are not profitable. We have sorted out the products that are not recognized for their value, in other words, that do not generate profit. This trend will continue, both domestically and internationally. The market itself is clearly showing signs of recovery, so we will aggressively market our products there. The products that we are actively selling are high value-added types of products. This will be the main focus and that this result will be realized.

Q: With regard to the consolidated performance forecast sales plan, in the past, Unicharm had stated that Japan will have an increase of 4~5% and overseas will have an increase of 8~9%. For this time, Japan had an increase of low-single-digit percentage and overseas had an increase of over 10%, and Unicharm have lowered sales in Japan and considerably raised them for overseas. Have you changed your perspective in any way since that time? Approximately how much do you see the sales growth in major countries?

A: Sales are expected to increase by 5~10% in China, by more than 10% in Indonesia, by 1~5% in Thailand, by more than 20% in India, by 1~5% in Vietnam, and by 15~20% in North America. Asia, where the market itself is becoming more active, is making a quick comeback, so the momentum is changing. We think that Japan will come back in a more conservative situation, taking into account the characteristics of the Japanese people, so we are planning to work aggressively on the changing market in Asia first. Japan is not conservative either. However, in terms of market share, Unicharm is steadily increasing its market share in all segments and almost all brands, but due to a discount of products for baby care, the size of the value-based market itself will shrink considerably. In fact, if the price is lowered while ignoring the quality of the product, consumer satisfaction will decrease and trust in the brand will be damaged. We think it is very important to have confidence and trust in brands for Japanese people, and also globally. The same goes for masks, diapers, sanitary products, and so on. In the pandemic, I think there are more and more opportunities for people to focus firmly on quality and to examine if the value to the brand is recognized. We should continue this successful pattern in the future and this fiscal year, so this is what we have planned.

Q: Consumption is especially declining in China, in your Company's category, is China experiencing any particular decline in consumption?

Support

Japan 03.4405.3160
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptasia.com



A: Since it is a consumer product, it is relatively less volatile to economic fluctuations. We also use brands in both the so-called premium segment and the standard segment. This is especially true in Southeast Asia as well because we acquired DSG, and the DSG brand is a relatively standard economy type in Thailand, Indonesia, and Malaysia. When it fluctuates in either direction, it can be picked up by either side, so that the oligopoly continues in terms of total market share. We think that we should focus on increasing the size of the market pie and our essence.

Q: I think that China's performance in Q4 may look a little dented. In Asia as a whole, sales growth has slowed down, and margins are calculated to have fallen slightly. Is this correct? If so, what is the background? And this year's forecast, that will change, and the growth is forecasted to be 5%~10%. Please tell us what will change so that you can make this forecast.

A: First of all, the impact of the sharp rise in raw material prices in Q4 was the biggest factor. The other thing is seasonality. From the end of the year, China has sales throughout the year, including sales for the Lunar New Year. That's where we need to spend our sales promotion money, and that's where it ends up costing us. This is a yearly trend, which is having a significant effect. In the full year as I explained earlier, if you look at H1 and H2 of FY2022, the impact of the cost increase in raw materials was very significant in H1. We also reflect the results of negotiations with material suppliers in our plans, but if you look at H1 and H2, H1 is quite difficult in terms of profits, and our structure is to recover in H2. This is our conventional H1/H2 comparison. In the current fiscal year as well, as shown in the chart now, the cost increase is expected to be JPY11.9 billion in H1. This is about JPY5.5 billion in H2, for a total of JPY17.4 billion, so there is a large gap. This is the result of solid negotiations, so if sales do not deviate significantly, the amount of cost increase will be like this. That's how it's structured.

Q: I would like you to sort out the concept of margins in China. Have you been promoting price pass-through in Q4? Is there any risk of further downside in margins?

A: I think that the biggest risk to the downward swing of the profit margin in our China business as a whole is in disposable baby diapers. However, for disposable baby diapers, we are not chasing sales, and as I explained earlier, the premium type of disposable diapers produced domestically in China are very well received by consumers. The cost to sales ratio is low, and the profit margin is relatively higher than that of the standard MamyPoko brand imported from Japan or made in China. So, it is obviously well received by consumers. Moreover, Unicharm's policy is to shift its focus to the premium type. We will not track the scale of our sales. Although the market share has declined considerably from its peak, we will continue to focus on the brand value. Feminine hygiene products are doing extremely well. We have plans for new products, and if we can maintain the strong performance of Feminine Care, I think it is unlikely that there will be any risk of a significant deviation from our plans or a decline in margins for the China business.

Q: The depreciation of currencies has been progressing, including in Southeast Asia, so is it correct to say that you will not only improve the product mix or make improvements, but will also raise prices overseas?

A: In fact, partly we are already gradually raising prices based on the CPI, Consumer Price Index, so we would say that the growth in Asia includes those parts. Although it is not a significant deviation, we will not simply raise prices, but rather switch products and sell products with higher unit prices than before at the same time. In addition, Asian currencies are appreciating against JPY, and we assume that this trend will continue in the current fiscal year. Moreover, in order to minimize the impact related to raw material procurement costs, we will increase the ratio of local procurement, including raw materials, especially in markets and countries where we have factories. Or, we will make adjustments to buy and sell in the form of local currency when importing, while trying to keep the volatility as narrow as possible and the cost fluctuations as low as possible.

Support

Japan 03.4405.3160
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasias.com



Q: I also feel that Q4 was a bit weak in Asia, and the Feminine segment is actually slowing down a bit. The improvement in the mix was only about JPY700 million in Q4, but how did this happen? In general, I see that there is no need to worry about the Chinese feminine, and could you please comment on this?

A: The cost of raw materials went up in H2. Rather than raw materials cost going up across the board, their actual use in the production of products was at the timing of increase, which had the greatest impact on the global total, resulting in a very high cost. The other issue is the seasonality of the sales promotion. Most of the sales promotion plans are concentrated at the end of the year, so Feminine Care took advantage of such plans to launch sales promotion. This is also reflected in the gap of raw materials costs between H1 and H2 in FY2022, which we explained earlier, because the increase in cost of raw materials is considerably included in H1. That's what makes it such a messy structure. We feel that this is also an indication that the same structure as in Q4 has been extended and continued into H1 of FY2022.

Q: I'm aware of the raw materials part, but I'm curious about the mix because you have a different analysis of profit and loss. Particularly this year, I see the mix as not being much of a factor in the increase in profits, despite the high cost of raw materials. So, as it was mentioned earlier, I wondered if it was because babies can grow unexpectedly in India. Rather, volume will be a major factor in the increase in profits this year. Has anything risky happened, especially in Q4?

A: That's the way I see it.

Q: In Q3, you said that the breakdown of raw materials in Japan and overseas was roughly 30% domestic, so if we apply that to the current fiscal year, the domestic raw material volume will probably be a little over JPY5 billion. You mentioned earlier that masks and other products are assembled to reduce revenue, so could you explain a little more about what kind of increase in sales or mix of products will prevent a decrease in profit?

A: First of all, the cost of raw materials will increase by JPY17.4 billion, which will worsen the gross profit by 2 points. We will improve the profit margin by 1 point by the product composition. In order to improve and cover the 2 points of soaring raw material cost, the remaining 1 point is improved by price revision at the time of new products and renewals and price increase of existing products. In addition, we are planning a total improvement of 1 point in the part of renewing products that improve productivity and add value. As we mentioned earlier, only pet care are included in the price increase for existing product lines. As we continue to negotiate for value-added products in multiple categories of new products and renewals, we can absorb further cost increases as a possibility. But for now, we have only included JPY1.5 billion in the plan, which is for pet products that we have negotiated with smoothly to some extent.

Q: Which category should be considered to be the main category for improving the product mix of gross profit margin?

A: Sanitary products in Feminine Care and disposable diapers for adults in Wellness Care. These are the main products.

Q: Your business performance has been growing very rapidly, but since operating cash flow has dropped by about JPY50 billion, please tell us the reasons for the decrease.

A: Main reason is that inventory is increasing. This is exactly what we are deliberately increasing because there is a danger that the supply chain will get bogged down in this COVID-19 environment. As far as the impact on accounts receivable is concerned, actually the collection of accounts receivable has been delayed in general, although this is also a result of the impact of COVID-19. However, to some extent, we are doing this including reliable suppliers while taking into account the current COVID-19 environment. There is no risk of default or anything like that.

Support

Japan 03.4405.3160
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptasia.com



Q: You have the container problems, so I guess you have to handle things differently than usual, because there are still some products being out of stock. I'm afraid I'm talking about the very short term, but due to having raised accounts receivable and inventories, isn't there a short-term negative impact on production in Q1 due to the fact that you had to store a lot of inventory?

A: Looking at the situation in January, the accumulated inventory has been steadily released to sales. We feel that we are off to a very good start without such problems. The current fiscal year has gotten off to a very good start.

Q: I understand that demand will increase as the impact of COVID-19 returns to normal activities. But looking at your Company's performance last year, I don't feel that you were affected by COVID-19 to the same extent as other companies. I think you were doing rather well, relatively speaking. The Company may have wanted to grow more, but it didn't seem to have declined, so I wondered if it would grow more. There are many people who have started to keep pets, but the number of people starting to keep pets is not increasing, and it will probably settle down soon. Could you add a little more information about whether it will be better because the activity will be better?

A: As a supplement, if we were to summarize the impact of COVID-19 on us, whether it is over or not, it had the effect of increasing sales and profits in Japan, including special demand. In Asia, however, it was rather negative. The main reason for the negative impact was that although there was no lockdown and no stoppage of factories in Japan, it happened everywhere in Asia, even in India. The loss of sales opportunities and the stoppage of factories resulted in the cost of imports in Q3, for example. In FY2022, these risks will go down considerably. Not all of the risks, but we will take this into account. Also to have the improvement of India returning from the fire to contribute almost a full year.

Q: You already told us that some overseas regions have already raised their prices, so could you tell us how much of the overseas price increases have been factored into the FY2022 plan?

A: We haven't actually included it in this plan itself yet. Once again, only JPY1.5 billion from Pet Care in Japan is clearly included. For the new products, it is not a price increase in my concept. For example, if 60% of new products or renewal products used to be premium, and it becomes 65%, we call this the product mix improvement. Then, even if sales remained the same, profits would increase. Moreover, if the number of products with high profit margins increases, the increase in costs can be absorbed by the gross profit margin, which is directly multiplied by the increase in volume. This is a characteristic of this business. We will sell well according to that structure.

Q: In the financial results of Indonesia, it was said that the prices were raised, but was this a pure price increase? Or was the price increase due to improvements?

A: We think what was being referring to was a simple price increase across the market. What was stated that we raised the price firmly as the top brand, and the competitors were following suit.

Q: What is the impact of the declining birthrate on the feminine care market globally? Is it already having an impact now, especially in developed countries?

A: In the long term, if the number of people decreases, the market will decline. In the short term, if people stop having children, the menstrual period will be extended, which is a positive thing for the market. This is because menstruation stops when they get pregnant, so it is natural that such a mechanism exists. Also, the concept of the sanitary product category itself is that it is not a commodity. It's not a disposable, expendable item, but rather women themselves project their lifestyles on this. For example, Unicharm's sports-type sanitary napkins were a big hit during the Olympic season, or people prefer sanitary products made from organic materials because environmental considerations are equal to considerations for their own health.

Support

Japan 03.4405.3160
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptasia.com



That kind of structure or trend is very evident. Also, in Asia, we will offer products that match the unique living conditions and climate environment of Asia. Even these sanitary napkins are made from materials that feel cool and refreshing or are branded as antibacterial to help control staining. For example, a warm-sensation type sanitary napkin to relieve menstrual cramps was released in China, and a type of panties with a very strong protection function, which is high value added and with high profit, was released in both low-cost and premium versions. For the conventional piece-type sanitary product used along with a regular pad, which can be used at home in a very relaxed way. This has been a big hit in Japan thanks to COVID-19. The brand is called Synchro Fit, and the sales of this brand are probably four to five times or even higher after COVID-19 than before COVID-19. It grew quite a bit. I feel one of the characteristics of Unicharm's sanitary products business is that we have been able to respond to changes in women's lifestyles triggered by COVID-19 and changes in Asian women's lifestyles, as well as differences in climatic environments, by launching new products with very good footwork. For baby disposable diapers, there is an anti-mosquito type that is made using healthful lemongrass as a repellent for mosquitoes that carry dengue fever in Asia. Also, there is a baby diaper using olive oil which has become a hit since we started selling in the Middle East. In the Middle East, it is a common practice to use olive oil for baby care, so we used those types of products as a sub-brand. I believe that this very flexible introduction of new and renewed products has led to an improvement in the margin mix and product mix. In Japan, there is a high-waist type diaper that is a little thicker but wraps the baby warmly to prevent the body from getting cold when wearing a diaper in cold weather. This is also product with relatively high added value. Although the market size is relatively small, the margins can be set high. For the cotton type diaper called Natural Moony, this has been a hit in China as well. These are what we are doing to improve the mix.

Q: It was stated that Japan's health care is growing by 6%, and here it is listed by product type. What types are growing significantly? Is it safe to assume that 6% growth is a cruising speed? Lastly, in health care in Japan. For example, if you put Feminine Care, Health Care, Baby Care, and Pet Care together, is there an above-average profit margin in Health Care in Japan? The growth rate in China is quite high, but could you disclose, how much of the Japanese market has been reached in absolute terms?

A: The profit margin for Japan's health care is high. The 6% growth rate is based on our assumption that the natural growth rate of the Japanese market is 3%, so we are planning to double the normal growth rate. This is based on the fact that the usage rate of adult diapers is still low and also because Unicharm has a 60% share of the general market. In particular, the pad type, or the pants type with a shape of pants of mild incontinence is growing. This is because the opportunity of using adult diapers start with urine leakage, and in many cases, women start using it first. We will be able to keep CapEx low and make a solid profit margin while making effective use of the technology we have cultivated through our sanitary products and production facilities. Within Japan's overall margin mix, the rate of return is particularly high for mild incontinence, as it is for sanitary products. In addition, the usage rate of the entire category is still low, so we are aggressively attacking the entry category of mild incontinence products, which have a high profit margin.

Q: What is the current usage rate, and what will be the level in five years?

A: First of all, there is a difference between women and men, and women start using it first, in general. In the case of women, Unicharm estimates 41%, which is the mild category I just mentioned. Remaining 59% would be using sanitary products. Men are still at about 22%. We are trying to educate the world about this and to encourage people to use special products and be active seniors, as usual. Regarding how fast we go, the psychological resistance barrier is quite high. But generally speaking, this category is the one they will be using for 10 years or more after entry. From the point of view of a single individual, 100% within 10 years, although this may be disrespectful to those who are maintaining good health. We believe that as the maximum value, we will be able to appeal to people over 10 years. If we can spread this very smoothly over the next 10 years, it will become a very big business opportunity. We think this will be a good environment for Unicharm and for the consumers who will use our products. As for the size of the market, Japan has about JPY200 billion, and

Support

Japan	03.4405.3160	North America	1.800.674.8375
Tollfree	0120.966.744	Email Support	support@scriptsasias.com



China still has a potential market of about JPY100 billion. Therefore, since China already has a population of more than 100 million people over the age of 65, it is a good place to develop the market. We believe that this is a market with such great potential.

Q: If that is the case, is it correct to assume that China's growth rate in Health Care in the new fiscal year will be about the same as in 2021?

A: It's more than that. The denominator is not that large, so it will grow quite a bit.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
4. *This document has been translated by SCRIPTS Asia.*

Support

Japan 03.4405.3160
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptasia.com



Disclaimer

SCRIPTS Asia reserves the right to edit or modify, at its sole discretion and at any time, the contents of this document and any related materials, and in such case SCRIPTS Asia shall have no obligation to provide notification of such edits or modifications to any party. This event transcript is based on sources SCRIPTS Asia believes to be reliable, but the accuracy of this transcript is not guaranteed by us and this transcript does not purport to be a complete or error-free statement or summary of the available data. Accordingly, SCRIPTS Asia does not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information contained in this event transcript. This event transcript is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal.

In the public meetings and conference calls upon which SCRIPTS Asia's event transcripts are based, companies may make projections or other forward-looking statements regarding a variety of matters. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the applicable company's most recent public securities filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are accurate and reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the anticipated outcome described in any forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE PUBLIC MEETING OR CONFERENCE CALL. ALTHOUGH SCRIPTS ASIA ENDEAVORS TO PROVIDE ACCURATE TRANSCRIPTIONS, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE TRANSCRIPTIONS. IN NO WAY DOES SCRIPTS ASIA OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BY ANY PARTY BASED UPON ANY EVENT TRANSCRIPT OR OTHER CONTENT PROVIDED BY SCRIPTS ASIA. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S PUBLIC SECURITIES FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS. THIS EVENT TRANSCRIPT IS PROVIDED ON AN "AS IS" BASIS. SCRIPTS ASIA DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, AND ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT.

None of SCRIPTS Asia's content (including event transcript content) or any part thereof may be modified, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of SCRIPTS Asia. SCRIPTS Asia's content may not be used for any unlawful or unauthorized purposes.

The content of this document may be edited or revised by SCRIPTS Asia at any time without notice.

Copyright © 2022 SCRIPTS Asia Inc. ("SCRIPTS Asia"), except where explicitly indicated otherwise. All rights reserved.

Support

Japan 03.4405.3160
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasias.com

