



Unicharm Corporation

Financial Results for the First Quarter of the Fiscal Year Ending December 2023

May 8, 2023

Q & A

Q: I would like to ask about the fluctuation in core operating income on page 6 of the financial result document. What is the breakdown of negative 1.6 billion yen in cost and other items for the first quarter of this fiscal year?

A: This includes factors for cost increases in manufacturing expenses, such as power costs and energy costs.

Q: Was China Feminine Care affected by the reduction in distribution inventory in 1Q? Is there a better chance that it will be eliminated from 2Q?

A: China lifted its Zero COVID-19 policy at the end of last year, and there was a period of the virus spreading among the population toward the beginning of the year. For this reason, we were not able to transport products well during this period, and the effects of continued inventory compression, especially by EC platformers, due to the economic slowdown in China as a whole were seen in the 1Q of this fiscal year. Our company's Feminine Care did not carry out excessive promotional activities even during Women's Day, so while we were able to maintain our storefront share, our share in EC was a little weak. In addition, since April, we have taken the initiative in investments on premium products such as pants-type napkins, which continue to do well mainly in emerging EC. There is no change in continuing this stance from the 2Q of this fiscal year. We believe that the trend of distribution inventory compression has largely been resolved in the 1Q of this fiscal year.

Q: Could you please give us a breakdown of the 4.2 billion yen value-shifting of the fluctuation in core operating profit in the first quarter of this fiscal year in Japan and Asia, and the level of achievement of the annual value shifting plan of 35.7 billion yen?

A: When the 4.2 billion yen of the value shifting in the 1Q of this fiscal year is divided into Japan and Asia, the image is 60 to 70% is Japan and 30 to 40% are overseas. Pet Care and Baby Care in Japan performed extremely well in the 1Q of this fiscal year. Since April of last year, we first began to value-shifting products for our Pet Care business and then gradually value shifting products for our Baby Care business from around July. Then, in early

autumn and at the end of the year, we began to value shifting products for Wellness Care business, so there was a time lag. We are seeing steady results in the 1Q of this fiscal year in our Pet Care and Baby Care business due to this value-shifting.

Q: What about Japan Feminine Care? I heard that there was an impact of last-minute demand before the value shifting in the 1Q of this fiscal year, but is it fair to assume that the value shifting price of Feminine Care will be acceptable to consumers after the 2Q of this fiscal year?

A: With regard to Feminine Care in Japan, we made progress in changing the product mix last fiscal year, focusing on premium products rather than value shifting. We announced that we would implement a price revision by value shifting from February of this year, and we believe that there was a trend toward last-minute demand from the end of last year to January. For this reason, deliveries stagnated a little in February and March, but we believe that we have returned back to regular level since April.

Q: How do you anticipate sales of Japan masks from 2Q onward?

A: We are currently reviewing our outlook for this fiscal year, reading market conditions and reviewing it, including revisions. The mask store front itself is on a downtrend from now until the summer, so this 1Q seems to have been affected by the downsizing of the sales space. Since the 2Q will be in the summer, as we have assumed from the beginning, we do not expect much progress in the 2Q, but in the 3Q and 4Q, shipments are likely to progress due to measures against influenza and hay fever. In fact, we are in the process of reviewing how far the usage rate will fall, including the market.

Q: If masks fall below the plan, which areas will cover this decline?

A: I feel Japan can cover this decline with the focus on Pet care in particular.

Q: Could you tell us about the 4.6 billion yen quantitative effect of the fluctuation in core operating profit in the 1Q of this fiscal year on page 6 of the financial results presentation, by dividing into regions and categories where it worked better than expected and where it didn't?

A: In general, it went as planned, but since we did not expect to see any reduction in distribution inventory, etc., we feel that Feminine Care in Japan and China is a little weak in quantity. We also feel that Thailand Baby Care is a little weaker at this stage than originally planned.

Q: Will you be able to recover back to same level in China and Japan Feminine Care and Thailand throughout the year?

A: How to cover that from 2Q onward is our challenge, and it's something we're discussing internally. In Thailand, with our company's high market share, competitors are coming in at lower prices, but our company will adjust as we go along, seeing consumers' sense of affordability, particularly in premium products.

Q: Is there anything in particular that Japan is experiencing a decline in volume because it has increased prices through value shifting?

A: There is individually. For Pet Care, value-shifting for premium product is working well, but there are parts where the volume is decreasing. Therefore, logistics efficiency and cost as a percentage of sales are decreasing, which has a significant impact on revenue. The market as a whole is affected by the declining birthrate, so how to increase volume is a major issue. After all, I believe that the most important thing is the balance between quantity, value and price.

Q: Of the 1.8 billion yen profit decline in Asia, you mentioned that China and Thailand were the worst performers in terms of sales, but were these 2 markets also responsible for the profit decline? Is it safe to assume that profits were higher in these other markets?

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A: Profits were down slightly in China and Thailand, as well as Indonesia. In Indonesia, volume and sales are growing, but we have not been able to absorb enough foreign exchange and cost increase factors at this time.

Q: Is the decline in profits in Thailand a result of lower baby care sales and higher costs?

A: Yes, it is.

Q: With regard to China, is it correct to understand that the restrained shipment of Feminine Care is the main factor, and that it is simply the effect of poor sales momentum, rather than the fact that promotional costs have been used to adjust the inventory of Made in Japan products that has been accumulating in the market, as has been done in Baby Care for some time?

A: With regard to Feminine care in China, we have not incurred any expenses to dispose of the inventory in particular.

Q: In the 1Q of the current fiscal year, the China Baby Care business posted an increase in profits, while the sales of Feminine Care were down and profits were down, so the total profit is down in the China business, but is it correct to understand that the reduction in the distribution inventory has been resolved and will improve from the 2Q?

A: Yes, that is correct.

Q: I'm concerned about the significant drop in Baby Care revenue in various areas. You said downtrade and the competitive environment were factors in Thailand, but could you tell me if there is a significant drop in volume in Vietnam, Saudi Arabia and other countries compared to the end of last year due to changes in market conditions and price increases caused by value shifting?

A: Overall, Baby Care sales are up. They are increasing, especially in places like Indonesia, India and Brazil, but in Vietnam, sales has being affected by competitors' pricing that have been going on since last year. In addition, sales of Baby Care are down also due to competitive pricing in Saudi Arabia, but sales of Feminine Care and Wellness Care are up by more than double digits and total sales in Saudi Arabia are up.

Q: I would like to ask about raw material costs. You stated that the cost increase of 12.5 billion yen in the first half of the current fiscal year was followed by a cost reduction of 1.5 billion yen in the second half, and a cost increase of about 6 billion yen in the 1Q of the current fiscal year, but the cost increase of 6.5 billion yen in the 2Q of the current fiscal year has been fixed while the external environment has changed drastically, and will the cost increase of about 12.5 billion yen in the first half of the fiscal year will be as stated in the plan? Also, to what extent has the hedging ratio progressed in the second half of the fiscal year?

A: In the case of our company, we decide the price with the supplier on a semi-annual basis. We have already negotiated the price for the first half, so we expect to have a cost increase of about 12.5 billion yen. As for the foreign exchange rate, we have set our initial forecast at 130 yen, so we expect it to stay around this level for the first half. We do not hedge against raw materials.

Q: I feel the environment is more difficult to raise prices overseas than it was last year, but with the weaker yen having less of an effect, are you not worried about price hikes due to value shifting?

A: I believe the situation is different in Japan and overseas, but in the case of our company, we do not raise prices across the board. We try to get consumers to properly recognize the value of our products and adjust the prices accordingly, so we don't lower prices just because raw materials have gone down, and I feel our mission as a manufacturer is to propose new products so that prices do not go down.

Q: I heard that China Feminine Care is losing market share, so could you let us know the situation?

A: Our storefront share is down slightly from last year. It's almost flat compared to six months ago. Our share in the EC is down about 3 points compared to the previous year. The factors behind the decline in the EC share are the impact of the Chinese economy and the reduction of distribution inventories including EC platformers. In addition,

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in the case of Feminine Care, the company's business is centered on actual stores, and the focus on profits during the Women's Day on March 8 has also had an impact.

Q: How are things going for Feminine Care in Southeast Asia like Indonesia, Thailand and Vietnam?

A: With the exception of China, Feminine Care is growing in every country and doing well.

Q: I heard that the amount of 6 billion yen for had not achieved value shifting in the previous year would be posted in the 1Q of this fiscal year as the amount of postponement, but I have the impression that the amount of postponement is a little small. How did this compare with your estimate?

A: It's not that the environment has become difficult and it's hard to raise prices by value shifting, but it's because of the delay caused by the lack of progress in deliveries due to the reduction of distribution inventory in China.

Finish

Footnote

Q means question and A means answer

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