



Unicharm Corporation

Q2 Financial Results Briefing for the Fiscal Year Ending December 2023

August 7, 2023

Question & Answer

[Q]: I would like to ask about value-shifting progress situation. You have lowered your value-shifting plan for the second half of this fiscal year by approximately 5 billion yen. Could you please tell us where value shifting is working well and where it is not? Also, will you continue to implement value shifting in the next fiscal year?

[A]: We were able to execute a value shift in the first half of this fiscal year, which was about 30% of consolidated sales. We were able to raise average unit prices by about 3%. Progress was good in Japan. On the other hand, it was difficult to pass on value in the global baby care businesses. In the second half of the fiscal year, we plan to increase the value shift to about 40-50% of consolidated sales through new products and renewal products. Although it depends on the product, but for example, for adult care products and pet care products, we are able to achieve a double-digit or higher value shift. For feminine care and baby care products, the value shift is about 1-3%, so on average, we expect the value shift to be in the 3% range. For the next fiscal year and beyond, we will consider value shifting while observing the situation in the second half of this fiscal year. Rather than simply raising prices, we will create new products and new categories to create new markets. For example, in Japan, we plan to launch a new category similar to Femtech, such as “Ninkatsu (Fertility) Liner”. Since the sales composition is small, the impact of these new products on consolidated sales, profits, and overall sales will be minor. However, new products are expected to account for approximately 30% of consolidated sales. As you know, our strength is that we are always aggressively launching new products, and we believe that we can continue to pass on value.

[Q]: You mentioned earlier that demand is not so much affected by the economy, but can we assume that consumers are responding well to this kind of value-shifting? Is there much difference there, for example, by region or variety or category?

[A]: Again, there are differences between categories. Consumers are firmly following what is highly necessary. Our high product appeal and one-of-a-kind categories are growing at a very high rate, as the general theory suggests. On the other hand, general-purpose baby care and feminine care segments are steadily disappearing, but these products have very low price resistance and tend to lose profits. Since such products appear from time to time, we are shifting our entire portfolio to premium types. Feminine care and baby care in China, in particular, are shifting to a phase in which profit is prioritized rather than volume. Regarding demand, we are conducting research in all countries where we first decide prices by looking at consumer reactions while communicating with consumers before launching products. Also, things like competitors’ actions will need to

be addressed along the way. For example, in Thailand, since the acquisition of DSGT, we have been using two brands, a premium type and an economy type. With no volume growth expected in the Thai market, we tried to cover this by raising prices, including the economy type, but we realized that it would be difficult to do so by raising prices. Therefore, we realized that have to pass on value through new products and renewals. As a result, we have shifted our baby care business in Thailand to a policy of capturing market share by firmly covering the top line in the second half of the current fiscal year. My biggest fear with demand is commoditization. We are determined to avoid the consumer mindset that cheaper is better, as in the disposable category in the U.S. I believe that Japanese consumers accept our products and as a result, our profit margin in Japan is increasing. Some of our growing adult incontinence care products and pet care products are doing well, but demand is based on consumer mindset, so we will do our best in Asia to avoid becoming a commodity and to prevent consumers from thinking that anything is better if it is cheap.

[Q]: Feminine care in China recovered in the first half of the current fiscal year, but what is your outlook for the second half? Also, how much has China’s feminine care contributed to value-shifting?

[A]: Japan contributed the most to value shifting. Adult incontinence care products contributed the most. The Wellness care business, which accounts for about 40% of sales in Japan, was able to achieve a strong value shift. In addition, we were also able to pass on value in the Pet care business, which accounts for about 14% of sales in Japan. China Feminine Care did not proceed as expected amid the need to deplete inventory that was built up in 4Q of last year, resulting in a weak 1Q for this fiscal year. Although there were cash flow problems in China as a whole, we implemented an average price increase of about 2%, resulting in a 7% increase in sales in the first half and was able to achieve a V-shaped recovery in the 2Q. We expect that China Feminine care will continue to maintain the strong 2Q performance in the second half of the current fiscal year. We believe that we will be able to achieve our initial sales forecast for the full year, thanks in part to the launch of renewal products that was planned with speed in first half of this fiscal year and which will be launched in early fall.

[Q]: Regarding on the movement to hoard distribution inventory in China, will it have any impact in the future?

[A]: If the spread of COVID-19 increases, consumers will move to hoard inventory, but we do not expect any impact.

[Q]: How is the situation in Indonesia, including the market?

Takahara [A]: Due to the high cost ratio in the Indonesia absorbent core business, both our company and other companies have limited room for price reductions. Increasing profit margins continues to be a common challenge for all participating manufacturers. The situation is susceptible to the fragile Indonesian Rupiah. Nevertheless, we are doing well because we continue to introduce new and renewed products to the market. We also continue to maintain a high market share, and we believe that our long-standing relationships with distributors and our longstanding implementation of the common goal of expanding total industry assets are very advantageous in the face of a changing environment.

[Q]: I would like to ask you about raw materials. With the yen having weakened from your initial forecast and crude oil not seeming to have dropped much, could you tell us about your purchasing methods and other efforts you are making?

[A]: Since about 90% of raw material costs are derived from crude oil, it is true that raw material costs are affected by the market price of crude oil. The core of the cost structure is nonwoven materials, and we feel that manufacturers who make them are beginning to be selective, looking for places that promise stable purchases. Therefore, we are constantly negotiating with them on a mid-to-long-term basis and always sharing the demand ahead of time.

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[Q]: Let me ask you a question about the profitability of baby and childcare in Asia. Thailand and Vietnam have been in a slump for the past year or so, but on the other hand, India has returned to profitability. I feel that the fact that baby care in Asia is increasing profits is your company's strength. How will the profitability of baby care in Asia improve in the future?

[A]: Ideally, I believe that we can get a double-digit profit margin. In the future, we would like to take volume in India and Africa. Africa will not be profitable for the time being, but since there are many children there, we would like to combine our portfolio well with the feminine care business, absorb the deficit in investment in the baby care business, and advance the African market over the medium-to-long term while striking a balance. We can achieve a profit margin if we are particular about premium products, but in order to grow our baby care business in Africa, we will leverage our strength in proposing solutions for the process from birth to old age, which is one of our strengths, as well as for pets. In Brazil, where we are doing well, by localizing management and valuing their intuition, we are doing things that Japanese foreigners cannot do with training the people in the field, and having business negotiations. We believe that the baby care business in Asia will also improve as India grows. Cambodia and the Indochina Peninsula also have large populations, and we hope to build a business structure that will ensure profits in all five countries.

[Q]: You have revised your estimate of raw material price hikes from 11 billion yen to 5.9 billion yen. What is the assumed oil rate for the revised 5.9 billion yen? Also, how much of a benefit do you expect in the next fiscal year? Regarding the value-shifting, you have revised the annual value shifting from the initial 35.7 billion yen to 30.7 billion yen for the current fiscal year. If raw materials become cheaper, is there a possibility of lowering prices in the next fiscal year?

[A]: In the Dubai market, the average price for the second half of the current fiscal year is about \$79 per barrel. Although there is a slight upward trend for the next fiscal year, the average rate for the first half of the current fiscal year was approximately \$98 per barrel when raw materials were negotiated. If the current rate continues, the negotiations themselves may have a positive effect, although there is a balance between supply and demand. As for prices, it is extremely unlikely that prices will return to their original levels. We would like to keep the negotiations going in a healthy direction by creating a good cycle in which consumers buy products whose value is passed on to them, and wages are raised.

[END]

Document Notes

1. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company.*
2. *This document has been translated by SCRIPTS Asia.*

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