Unicharm Corporation

Q3 Financial Results Briefing for the Fiscal Year Ending December 2023

November 7, 2023

Question & Answer

Q: How much was the insurance payout for the factory fire in India? Is this included in other income? Will this change shareholder returns?

A: Regarding insurance claims in India, approximately 5.3 billion yen was recorded as a deposit in the 3Q under other income, but the total amount has not yet been determined. Although sales and core operating income are slightly behind, quarterly profit attributable to owners of the parent company is as expected, so total returns are on schedule.

Q: I believe raw material prices were down by approximately 2 billion yen in the 3Q, but what is your forecast of the raw material prices for the 4Q and next fiscal year?

A: The 2 billion yen decline in the 3Q has been partially offset by the strong dollar and weak local currencies, so we expect this year's sales to be a little weaker than expected. We are currently formulating a budget for next fiscal year.

Q: You mentioned that you will continue to promote value shifting in the next fiscal year, year 2024. Will you continue to promote value shifting of 3-4%, the same level as in the current fiscal year, year 2023? Or will you go back to the traditional value shifting level of about 1-2% per year?

A: For value shifting, we are also planning value shifting in relation to next year's budget, but in our case we are not simply raising prices, but rather changing value through new and renewed products, so this is an ongoing initiative. This will be done while communicating with consumers. However, there are differences among countries and products. Although we will be looking at the balance including competitors, we will continue to conduct few percentage of value shifting to the consumer. For some products, such as pet-related products, which are relatively easy to be accepted, value shifting will be in the mid to high single digits.

Q: I believe that sales in China declined by about 30% in the 3Q alone, but should we see this simply as an inventory adjustment? Also, when do you currently expect this inventory adjustment to be completed?

A: In a word, it is inventory adjustment. 2Q saw a slight increase in distribution inventory due to the re-expansion of COVID-19 toward the end of June, and in 3Q, due to the forecast economic slowdown in China and other factors, the entire distribution network shrank inventory, making it difficult to make deliveries. We consider this to be a temporary situation and expect inventories to return to normal levels in the 4Q. In addition, since we do not handle food products, we did not think that the Fukushima treated water issue would have any impact on our business. However, there were cases of top KOLs withdrawing from live events, etc., and we were unable to promote our products at these live events. Furthermore, we had to step on the brakes in some areas due to the credit concerns of some of our business partners in relation to the Chinese economy.

Q: Could you please explain the reasons why Thailand and Vietnam improved in 3Q? Also, for the next fiscal year, do you feel this will continue?

A: Feminine Care grew more steadily than Baby Care in both Thailand and Vietnam, and drove the overall Thailand sales. The percentage of decline in Baby Care was also more controlled than in the 1Q and 2Q. As for Thailand, it is a tough market due to the decline in births and was in a trade down situation, but profitability is high, so we are taking measures to catch up to keep up with profitability by concentrating on premium products. In addition, exports to countries surrounding Thailand were reduced in the 1Q and 2Q partly due to the collection issues, but are now returning to normal. In Vietnam, as in Thailand, competition is intensifying due to the entry of new companies, but new products have been launched in the 4Q, which we hope will serve as a catalyst. In Vietnam, feminine care exceeded baby care sales in the 3Q of this fiscal year, and the structure is changing slightly. Wellness Care also continues to grow steadily, including in Thailand.

Q: You mentioned that China will normalize from the 4Q. Are you referring to the fact that shipments will go out along with sell-outs in stores as normalization? Also, in the 3Q, profits in the Asian region decreased by approximately 6.4 billion yen, but how much of this did China account for?

A: Feminine Care has been able to maintain store front sales and market share, so we expect deliveries to progress once distribution inventory adjustments are cleared. Due to the Covid-19, it was difficult to launch new products and we lacked the quantity and speed, but now we are finally back to business as usual. There are a lot of new products coming out in the near future or in the next fiscal year, so I feel that we will be able to offer value to consumers and see a gradual improvement from 4Q, and then a big improvement next fiscal year. China is the main reason for the decline in profits in Asia in 3Q.

Q: Is there any indication that China is experiencing a down trend toward premium feminine care products?

A: All of our feminine care products are premium lines, so we believe there will continue to be demand for these products.

Q: You mentioned earlier that value shifting differs from country to country and product to product. For the next fiscal year, will you proceed with the same kind of value shifting in Japan as you did in the current fiscal year? Could you tell us about your thinking way on value shifting and volume for Japan in the future?

A: There are certain consumers for whom price is important. If they are not particular about the product or if the product does not change much, they will go for the cheaper one. Therefore, I believe that it is important to raise awareness about the strength of the product brand and the quality of the product itself. I feel that the key will be how much we can create products that people say, “I have to have this product from Unicharm”. I believe that the reason Pet Care has been able to grow and become profitable while repeatedly conducting value shifting is because we have been able to provide unique and health-oriented products. Our strength lies in our ability to catch and adjust to the information from users and from the sites, which differ by products, sales spaces, and regions. We will continue to produce unique and differentiated products and work to expand the total assets of the entire industry and the entire market.。

Q: I believe that the Baby Care business in China was expected to turn profitable from the second half of this fiscal year, because you will be switching to mainly locally produced products, but has this been pushed back a bit?

A: Yes, we have delayed our schedule a bit, but we are well on our way to shifting to China-made disposable pants.

Q: In the 3Q, you are behind your company’s annual plan due to the influence of China, but what factors will help make up for what you missed in the 3Q in order to catch up and achieve your annual plan?

A: It is a very difficult situation to make up for this loss, but we are making progress with the added benefits of growing countries such as Japan, India, Brazil, Saudi Arabia, and North America.

Q: Will there be any changes in China’s competitive environment?

A: My understanding is that there has not been much change in Feminine Care in China. Regarding Baby Care, our market share has not changed much compared to a year ago, but among global players as a whole, our share has increased by about 1 point from 35% to 36% in the previous year. Among the group of local manufacturers in China who account for more than 60% of the market share, there is not much change.

Q: Are the start-up companies that are entering Thailand and Vietnam already entering the feminine care products market?

A: Regarding Feminine Care, it has not yet been expressed in numbers. In Baby Care, for these start-up companies, we believe that in Thailand and Vietnam they have a market share of around 3% to 4%.

Q: Are there any risks in the Middle East due to the situation in Israel?

A: We have factories in the Middle East and Egypt, and mainly export from the Middle East to surrounding countries, but so far there has been no direct impact.

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