



Unicharm Corporation

Briefing for the Fiscal Year Ended December 2023

February 8, 2024

Question & Answer

Q: Can you please tell us the reason for the forecasted decrease in profit due to DX and other investments while domestic sales in Japan will increase by 5-6% in FY2024? Also, can overseas, including geopolitical risks, cover that?

A: We will invest approximately 2 to 3 billion yen in digital-related areas. Our mission is to realize a cohesive society, and our philosophy is to utilize digital technology to help people grow while expanding our products and services. Unicharm's DX will lead to the development of new products and services rather than improving productivity. We will invest to make more effective use of the advantage of having continuous seamless contact with all living things, from babies to the elderly, including pets. We need to think about this while testing hypotheses and make investments to implement it, and putting it into practice will be the new 12th Mid-term Management Plan.

I am sure that the discharge pantliners which shows one's pregnancy timing that was released in the fall of Year 2023 will be positioned in terms such as Femtech, but the reason Unicharm released the Ninkatsu (pregnancy timing) liner is due to the declining birthrate and aging population. This is one specific Unicharm solution to such social issues. Within Unicharm, the Sofy brand is currently growing as the most valuable brand in Japan and Asia, so from FY2024, we will focus on the Sofy brand and the Feminine Care business as a base for acquiring consumers. Now more than ever, I believe we can take advantage of the fact that everyone from babies to the elderly, including pets, are seamlessly connected. For example, in China, Unicharm has already started using the Sofy brand as a credit for its Mamy Poko and Moony brands. Since Sofy has the largest number of users both in number and quality, we can use Sofy as a source of security and leverage the advantages of Unicharm's portfolio in the Baby Care, Wellness Care, and Pet Care businesses, which have not been connected until now. I believe we can increase both qualitatively and quantitatively. In Asia, we will communicate with Sofy at the core, as we have done successfully in Japan. I believe that by changing our approach to

branding with Sofy at the core, the ripple effect will definitely lead to an increase in overall sales and profits. Geographically speaking, the Japan business will have lower profits because the headquarters will be making investments, but we believe the effects will spread.

Q: How low are you willing to allow investments to go in FY2024, even if it is only temporarily?

A: Oil prices will be relatively more stable in Year 2024 than in Year 2023. The market condition, which determines the price of oil, and the growth rate of the economy, both are not expected to improve that rapidly next year in China. Therefore, we believe that the cost rate can be stabilized. Value shifting provides a buffer between whether we move forward as aggressively as we will did in FY2023 or not. The effect of value shifting was seen in ASEAN and Japan. In terms of categories, it was effective in the Pet Care business and Baby Care business. Continuing to shift value in the Pet Care business and Baby Care business is not factored into our plans for FY2024. Of course, we will propose value shifting, but it is becoming difficult to grow in scale in the Baby Care market worldwide, so it is difficult to achieve both qualitative growth and scale amid competition. Therefore, we will increase our profit margin. However, even if the profit margin increases, the amount of profit will not increase easily, so we are not making very aggressive assumptions about the profit margin overall.

Q: I believe that competition is intensifying in China as well, but could you explain the competitive environment, the basis for your confidence that your company can win, and how you view the situation in Thailand and Vietnam?

A: For the sales growth for Thailand and Vietnam, Thailand is 5% to 10%, and for Vietnam, sales growth is 1 to 5%, which is a little high considering the current situation, but the results reflect the high sales forecast. You may think that China is also a little high, but I believe that China's market bottom will be in FY2023. In particular, the second half was the bottom. Even so, one of the reasons why we are seeing sales growth of 5% to 10% is because there was a reactionary effect from not being able to take promotional actions due to the Fukushima treated water issue, and because there was still some improvement needed in the Baby Care business portfolio in FY2023. In order to improve the structure of our business in China, due to reaction to not being able to do what we wanted to do in the Feminine Care business, and Feminine Care business launching a considerable number of new and renewed products in the first half of FY2024, we believe that the top line can be achieved. January results are good. Feminine Care is doing very well, so prices are going up, and I do not feel that there will be too much volatility in the Unicharm category. Regarding Thailand, with Thailand as our core, we also send various products to four countries in Indochina area other than Vietnam, as well as Cambodia, Laos, and Myanmar. That will be counted for the Thailand business. It is true that when looking at Thailand as a single country, it is a medium-sized company, but when you include surrounding countries, it has potential and is operating at a mix of maturity and growth. We regret that there was chaos within Thailand in FY2023, but in FY2024 we will take a more focused approach, such as steadily growing neighboring countries and strategically attacking with the DSG brand. In addition, I feel that we need to grow our Wellness Care business a little more.

Q: Please tell us about your approach to value shifting in FY2024. In FY2023, the full year was 25.4 billion yen, but what are your expectations for FY2024? If possible, could you please separate it into Japan and overseas? Also, you mentioned earlier that value shifting in Japan was not a major consideration in the Baby Care and Pet Care businesses that were implemented last year, but looking at the stores, is there still room for price increases while other companies seem to be raising prices considerably on disposable diapers for babies? Or are you going to take a strategy to capture market share?

A: Unicharm has the highest retail price. We expect the effect of increased sales to be about 24 billion yen, half of which will come from value shifting. In terms of value shifting, we expect that Japan will account for about half of this.

Q: You mentioned that market conditions in China are improving, but growth in the value market has slowed down a bit, and there was also the impact of voluntary restraints on KOL marketing due to the treated water issue. There were some transitory factors in the China Feminine Care business, such as a slight loss of value share in the 4Q of FY2023, but how much profit do you imagine will be recovered in the volume and price plan for the China business in FY2024?

A: The China Feminine Care business market is about 5 to 6 times larger than Japan's, but we expect both volume and value to be flat or slightly down by about 1%. Mainstream young women who create trends are very assertive, especially when it comes to feminine care products. By changing products, will create trials by projecting their lifestyles not only the outer packaging, but also by using celebrities and KOLs with whom they communicate with. Therefore, the option of lowering prices is not considered. While the China market is large, both volume and value were expected to remain flat in FY2023, and due to the fact that the category is not greatly affected by economic fluctuations, we believe that premium appeals will be effective.

Q: Regarding KOL marketing, it has been making a steady recovery since around January, and many new products are being released. So is it safe to assume that the impact has cleared up?

A: KOL has not recovered yet, but the numbers are good. Not all products need a KOL in order to sell. Most recently, there was the International Women's Day, and with new products as a hook, products selling out are steadily growing.

Q: In the Pet Care business, there was an inventory adjustment in the 4Q of FY2023. Could you please explain the causes for this?

A: The cause for the inventory in the Pet Care business in the 4Q was due to the fact that exports of pet toiletries to North America were halted due to the convenience of other party, but this will be resolved in FY2024.

Q: Are there any concerns that demand is slowing down due to an economic downturn or uncertainty?

A: We are not concerned. It is just temporary.

Q: I understand that core system integration costs and DX costs are planned for FY2024, but what is the biggest uncertain factor in the trend of core operating income?

A: Raw materials are the area with the greatest risk of uncertainty, but raw materials for the first half are almost fixed. As for the second half of the year, due to timing of fixing raw material costs, therefore costs will be a shifted later every six months. I feel that raw materials will probably be a factor in some of the fluctuations in Unicharm's performance. In FY2024, we will be making large-scale investments in systems-related areas, DX, etc. as structural reform investments, so we would see a decline in domestic profits.

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