Lion Corporation

Financial Results for the Fiscal Year Ended December 31, 2019

February 13, 2020

Event Summary

[Company Name]	Lion Corporation	
[Event Type]	Financial Announcement	
[Event Name]	Financial Results for the Fiscal Year Ended December 31, 2019	
[Fiscal Period]	FY2019 Annual	
[Date]	February 13, 2020	
[Number of Pages]	28	
[Time]	16:00 – 16:56 (Total: 56 minutes, Presentation: 26 minutes, Q&A: 30 minutes)	
[Venue]	6F Sapia Tower, 1-7-12 Marunouchi, Chiyoda-ku, Tokyo, 100-0005	
[Venue Size]	310 m^2	
[Participants]	64	
[Number of Speakers]	6	
	Itsuo Hama	Representative Director, Chairman of the Board of Directors, Chief Executive Officer
	Masazumi Kikukawa	Representative Director, President and Executive Officer Chief Operating Officer
	Takeo Sakakibara	Director, Senior Executive Officer
	Kei Minamikawa	Director of Corporate Planning Department
	Akihiko Takeo	Director of Finance Department
	Keita Tanimoto	Director of Investor Relations Office Corporate Planning Department
[Respondent]	Masazumi Kikukawa	

Presentation

Tanimoto: Thank you for visiting today. Now, we will hold a financial results briefing for the 159th fiscal year ended December 31, 2019 of Lion Corporation. We disclosed our financial announcements on the Tokyo Stock Exchange at 3:00pm today. We would like to explain the details.

Now, I would like to introduce our participants today: Itsuo Hama, Representative Director and Chairman. Masazumi Kikukawa, Representative Director, President and Executive Officer. Takeo Sakakibara, Director, Senior Executive Officer. Kei Minamikawa, Director of Corporate Planning Department. Akihiko Takeo, Director of Finance Department. I am Tanimoto, Director of Investor Relations Office Corporate Planning Department, and will moderate the meeting today. We would like to answer your questions after the presentation. President Kikukawa, please go ahead.

Fiscal 2019 Consolidated Results Highlights

LION

Deviation from initial forecasts

Net sales and profit forecasts not achieved

- Worsening business environment in South Korea and Hong Kong and intensifying competition in Southeast Asia from the third quarter onward
- Intensifying competition in the domestic Consumer Products business, which had been firm, near the end of the year

Y-o-Y Change

Net sales edged down, but core operating income increased

- Sales down in the Overseas Business and Industrial Products Business due in part to geopolitical factors
- Sales growth in the Consumer Products Business and improved profitability in the Overseas business led to an increase in core operating income

 4

Kikukawa: Thank you very much for gathering today. First, I would like to review the results for FY2019, and then explain our initiatives for the current fiscal year.

This is the highlight of the consolidated results for the fiscal year under review. As we revised our financial results for FY2019 on January 31, both net sales and profit forecasts were not achieved.

From Q3, the business environment in South Korea and Hong Kong has become worse, and the competition environment has become tighter in South Asia. However, we have been working to achieve the forecast by thinking that it could be covered by the domestic Consumer Products Business. However, in Q4, the deterioration in the environment in South Korea and Hong Kong exceeded our expectations, and competition intensified toward the end of the year, mainly in the domestic fabric care field. As a result, both net sales and profit were below the forecasts.

Sales in the Consumer Products Business increased YoY, but sales in the Overseas Business and the Industrial Products Business declined due to the impact of the deterioration in the business environment I mentioned earlier. As a result, consolidated sales fell slightly below the previous year's level.

Core operating income increased due to an increase in net sales of the Consumer Products Business and the improved profitability of the Overseas Businesses due to cost reductions and other factors.

Consolidated Financial Results

LION

(Billions of yen)	2019	2018	Y-o-Y change		Deviation from forecast (% deviation)
			Amount	%	
Net sales	347.5	349.4	(1.8)	(0.5)	(12.4) (3.5)
Core operating income % of net sales	30.0 8.6	28.3 8.1	1.6	5.9	(1.4) (4.6)
Operating profit % of net sales	29.8 8.6	34.1 9.8	(4.3)	(12.8)	(1.1) (3.8)
Profit for the period attributable to owners of parent	20.5	25.6	(5.0)	(19.7)	(0.4) (2.1)
EPS (Yen)	70.72	88.11	(17.39)	(19.7)	(1.53) (2.1)

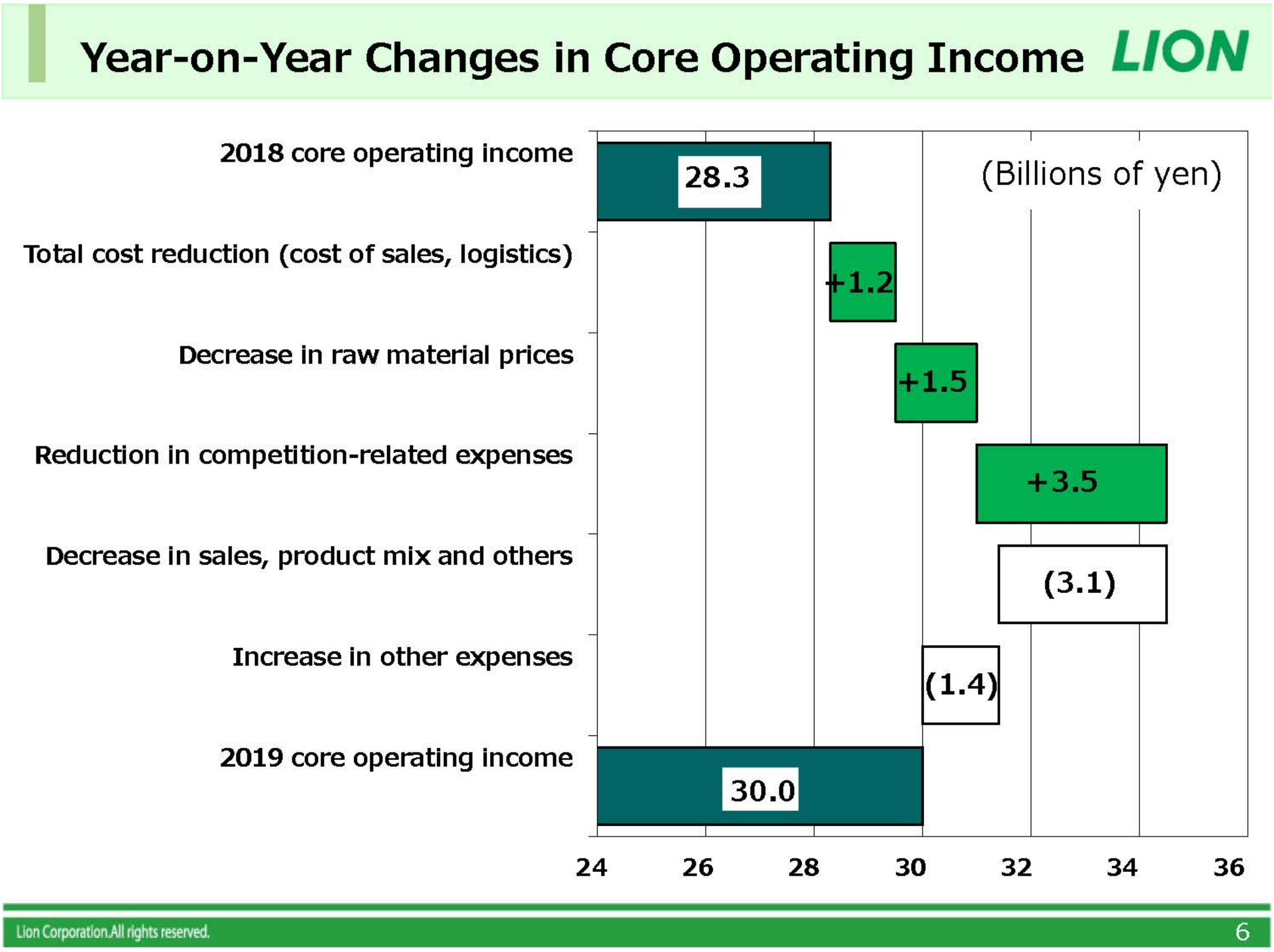
*Core operating income is an earnings indicator the Company uses to measure regular business performance by subtracting selling, general and administrative expenses from gross profit.

Next, I will explain our business performance in more detail.

Net sales were JPY347.5 billion, a decline of JPY1.88 billion, or 0.5%, from the previous year. Excluding the effects of exchange rate fluctuations, net sales declined by 0.4%. Excluding the impact of the transfer of the insecticide business and the loss of consolidation of Malaysian detergent ingredient manufacturing subsidiary, net sales increased by 0.4%. In the future, if there are special factors, we will indicate them as a real growth rate in the margins of the corresponding sections.

Core operating income increased by JPY1.6 billion, or 5.9%, to JPY30 billion, while the core operating income margin rose by 0.5% to 8.6%.

Operating profit was JPY29.8 billion, an increase in real terms excluding the impact of the absence of a gain on sales of property, plant and equipment recorded in the previous fiscal year.



This is the reason for the change in core operating income. Total income growth of JPY6.2 billion was attributable to steady progress in total cost reductions, lower raw material prices, and lower competitive costs. On the other hand, a decrease of JPY4.5 billion was attributable to decreased sales, changes in the product mix, and an increase in other expenses.

The decrease in competitive expenses was mainly attributable to a decrease in advertising expenses. This was mainly due to a shift to digital, and in response to intensifying competition in the domestic fabric care field, a part of which was deliberately shifted to sales promotion expenses, particularly in Q4. Since this amount is deducted from sales under IFRS, this portion is counted in the item of decrease in sales, product mix and others as a decrease in gross profit due to sales decrease. An increase in depreciation expenses associated with the expansion of production capacity, mainly in oral care, is also included in this item.

As a result of these changes, core operating income rose JPY1.67 billion.

Results by Business Segment

LION

(Billions of yen)	Sales 2019	Sales 2018	Sales Y-o-Y change Amount	Sales Y-o-Y change %	Segment profit (Core operating income) 2019 / %	Segment profit Y-o-Y change Amount	Segment profit Y-o-Y change %
Consumer Products	234.3	231.5	2.7	1.2	19.6	1.8	10.1
	219.3	215.3	3.9	1.9	8.4		
Industrial Products	55.1	57.9	(2.7)	(4.8)	1.7	(0.6)	(25.5)
	32.9	34.0	(1.0)	(3.2)	3.2		
Overseas	101.0	105.0	(3.9)	(3.8)	7.5	0.6	9.8
	91.7	94.7	(3.0)	(3.2)	7.5		
Other	35.3	34.0	1.2	3.7	1.5	(0.1)	(11.4)
	3.4	5.2	(1.8)	(35.0)	4.3		
Adjustment	(78.4)	(79.2)	0.8	–	(0.4)	(0.0)	–
	0.0	(0.0)	0.0	–	–		
Consolidated Total	347.5	349.4	(1.8)	(0.5)	30.0	1.6	5.9
					8.6		

* Under sales, upper lines indicate net sales and lower lines indicate sales to external customers.
The % figures given under the 2019 segment profit figures indicate said figures' ratio to segment net sales.

7

Next, we will discuss the results by segment. Regarding sales, I will comment on the total net sales in the upper rows.

In the Consumer Products Business, sales increased 1.2% and segment profit increased 10.1% to JPY19.6 billion. Segment profit margin was 8.4%, up 0.7% from the previous fiscal year.

In the Industrial Products Business, sales decreased 4.8% as a whole, mainly due to sluggish sales of semiconductor-related products in the electric and electronics field affected by trade friction between the US and China. Segment profit declined 25.5%, mainly due to a decrease in gross profit resulting from lower sales and an increase in depreciation expenses associated with the start-up of core systems at a chemical subsidiary.

In the Overseas Business, sales decreased 3.8% YoY due to the impact of the decrease in sales in South Korea and Hong Kong mentioned at the beginning of the report. Excluding the impact of exchange rate fluctuations, the real rate of change was a 3.2% decrease. Segment profit increased due to improved profitability in major Southeast Asian countries and a recovery in growth in China. The segment profit margin was 7.5%.

In the Other segment, sales increased 12.7% due to an increase in the sales volume of logistics subsidiaries. However, at a construction subcontracting subsidiary included in this segment, internal construction works, such as the construction of a new factory for toothpaste, increased, which resulted in a decline in orders received for external construction work. As a result, sales to external customers decreased substantially.

Consumer Products Business Net Sales by Product Category

LION

(Billions of yen)	Net sales			
	2019	2018	Y-o-Y change	
			Amount	%
Oral Care	64.5	59.5	5.0	8.5
Beauty Care	22.3	21.0	1.3	6.3
Fabric Care	60.7	59.7	0.9	1.7
Living Care	19.7	17.8	1.8	10.5
Pharmaceuticals	26.2	29.2	(3.0)	(10.3)
Other	40.6	44.1	(3.4)	(7.9)
Total	234.3	231.5	2.7	1.2

*Excluding the transfer of the insecticide business, the year-on-year change in the Pharmaceutical Products business was -4.9%.

 8

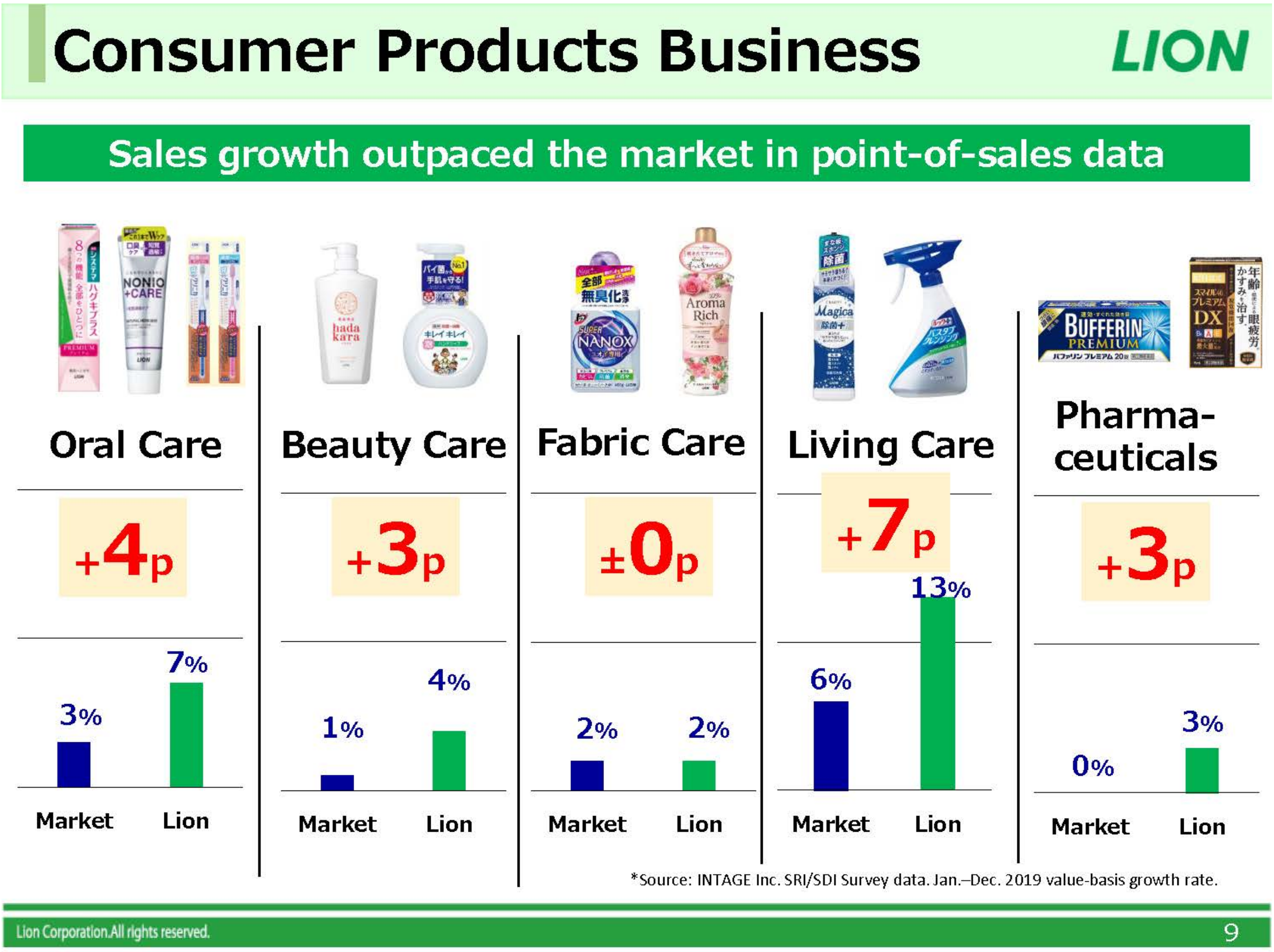
Next, I will explain sales in the Consumer Products Business segment in more detail.

Oral care, beauty care, and living care are all growing steadily, supported by contributions from new products and high value-added products.

In the fabric care field, sales of the renewed core brand of fabric softeners increased steadily mainly in the second half of the year, despite intensifying competition toward the end of the year in the area of laundry detergents. As a result, overall sales increased.

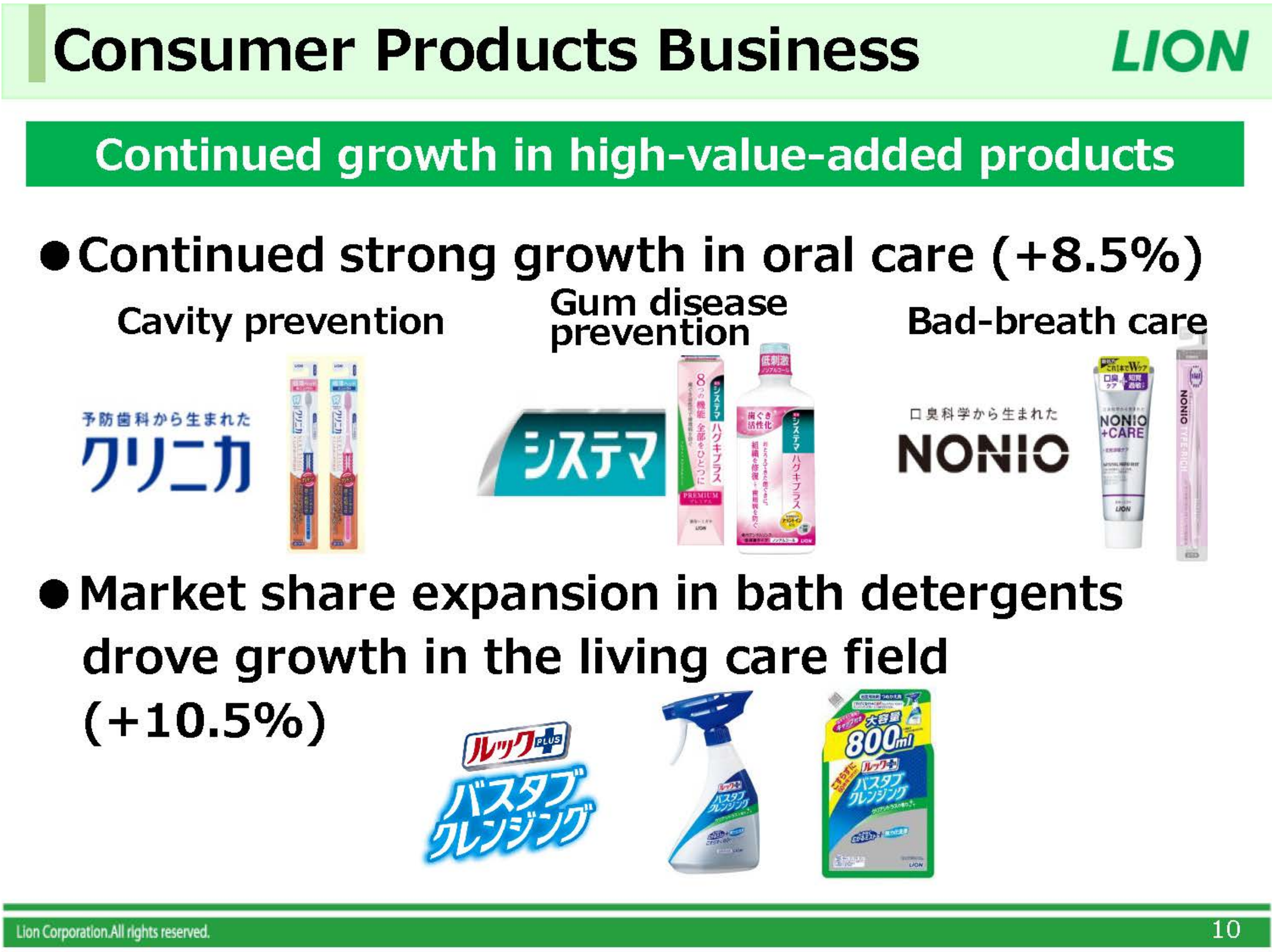
In the pharmaceuticals, sales of the mainstay antipyretic analgesics and eye drops increased YoY, but sales declined due to the impact of the transfer of the insecticide business and a decline in demand from inbound tourists in Japan. Excluding the impact of the transfer of the insecticide business, the real growth rate was a decline of 4.9%.

In the other field, sales decreased due to a decrease in sales within the Group accompanying the transfer of the insecticide business and the continuing struggle in the direct-to-consumer sales.



We are looking at the growth of five major consumer products sectors based on retail sales values, comparing the total market and us.

The fabric sector is the only market segment with the same growth rate as the market, while all other segments have been able to grow faster than the market. We expect steady growth to continue.



In addition, I would like to provide a brief explanation of the state of the Consumer Products Business.

In oral care, we launched new high value-added products such as toothpaste, toothbrushes, dental rinses, and dental products in each of the three priority categories of cavity prevention, gum disease prevention, and bad-breath care. As you saw earlier, we were able to maintain a high growth rate of 8.5% YoY on a sales basis.

In the living care field, sales were up 10.5% YoY, driven by growth in the market share of *Look Plus Bath Cleansing* bath detergent. We received several awards, with the characteristic that it reduces the burden of cleaning the bathroom and realizes a need for time reduction.

In this way, the continued growth of high value-added products in each field contributed greatly to the growth in sales and profits of the Consumer Products Business as a whole.

Overseas Business

LION

Net Sales by Region

(Billions of yen)	Net sales 2019	Net sales 2018	Y-o-Y change Amount	Y-o-Y change %
Southeast Asia	69.5	70.2	(0.6)	(0.9)
Northeast Asia	31.5	34.8	(3.3)	(9.5)
Total	101.0	105.0	(3.9)	(3.8)

*A detergent ingredient manufacturing subsidiary in Southeast Asia has been excluded from the scope of consolidation from the end of May 2018. Excluding the impact of this exclusion, the Y-o-Y change for Southeast Asia was +1.8%.

- Rapid worsening of business environment in South Korea and Hong Kong
- Double-digit growth in China

Next, I will explain the Overseas Business divided in two regions.

Sales declined in both Southeast and Northeast Asia. However, as shown in the table below, Southeast Asia has achieved positive growth in real terms.

The decline in sales in Northeast Asia was attributable to the effects of South Korea and Hong Kong, which I explained earlier. In China, we achieved double-digit growth on a local currency basis after shifting to a growth trajectory last year following monetization through structural reforms. Sales of imported products from Japan have contributed greatly to this growth in sales.

Let me now explain our initiatives for 2020.

2020 Consolidated Financial Forecast

LION

(Billions of yen)	2020	2019	Y-o-Y change		LIVE Plan forecast for 2020*	Difference from LIVE Plan forecast for 2020
			Amount	%		
Net sales	355.0	347.5	7.4	2.2	400.0	(45.0)
Core operating income	30.5	30.0	0.4	1.5	40.0	(9.5)
% of net sales	8.6	8.6			10.0	
Operating profit	31.0	29.8	1.1	3.9	40.0	(9.0)
% of net sales	8.7	8.6			10.0	
Profit for the period attributable to owners of parent	21.0	20.5	0.4	2.1	28.0	(7.0)
EPS (Yen)	72.24	70.72	1.52	2.1	–	–

* The LIVE Plan forecast was announced February 9th, 2018.
† Core operating income is an earnings indicator the Company uses to measure regular business performance by subtracting selling, general and administrative expenses from gross profit.

13

As for the consolidated financial results forecast for FY2020, net sales are expected to be JPY355 billion, an increase of 2.2%. Core operating income is expected to be JPY30.5 billion, an increase of 1.5%. Operating profit is expected to be JPY31 billion, while profit for the period attributable to owners of parent is expected to be JPY21 billion.

This year marks the final year of LIVE Plan. On the right-hand side of the table, differences between the performance targets at the time of the announcement of the LIVE Plan and the current targets. I will explain this later.

2020 Forecast of Sales by Segment

LION

(Billions of yen)	Sales to external customers			
	2020	2019	Y-o-Y change	
			Amount	%
Consumer Products	225.0	219.3	5.6	2.6
Industrial Products	33.5	32.9	0.5	1.7
Overseas	93.5	91.7	1.7	1.9
Other	3.0	3.4	(0.4)	(12.5)
Total	355.0	347.5	7.4	2.2

This is the forecast for sales to external customers by segment.

Reasons for Difference from Initial LIVE Plan LION

2020 forecast: Sales to external customers

(Billions of yen)	2020 forecast	Difference	
		From initial LIVE Plan forecast	From 2017 results
Consumer Products	225.0	(25.0)	9.8
Industrial Products	33.5	(1.5)	0.8
Overseas	93.5	(19.0)	2.7
Other	3.0	+0.5	(1.0)
Total	355.0	(45.0)	12.2

Reasons for difference

- Consumer Products: ¥25.0 billion
  Growth was slower than expected due to intensifying competition in fabric care and direct-to-consumer sales
- Overseas: ¥19.0 billion
  Sales were lower than expected in South Korea, where the business environment worsened, and China, where Lion advanced the first year of structural reforms

 15

This table shows the forecast for 2020 by segment, the 2020 target announced in the LIVE Plan, and the increase or decrease compared to the 2017 results prior to the LIVE Plan.

Compared with the time LIVE plans were announced, there is a large discrepancy with the decline of JPY25 billion in the Consumer Products Business and the decline of JPY19 billion in the Overseas Business.

In the Consumer Products Business, the Group continued to struggle, mainly due to intensifying competition in the fabric care and direct-to consumer sales. Overseas, the business environment worsened in South Korea last year, and we undertook structural reforms in China in the first year. As a result, sales fell short of our initial expectations.

However, although the figures are not shown, in comparison with the results in 2017, we have been achieving steady growth while generating core operating income.

2020 Consolidated Financial Forecast

LION

(Billions of yen)	2020	2019	Y-o-Y change	
			Amount	%
Net sales	355.0	347.5	7.4	2.2
Core operating income % of net sales	30.5 8.6	30.0 8.6	0.4	1.5
Operating profit % of net sales	31.0 8.7	29.8 8.6	1.1	3.9
Profit for the period attributable to owners of parent	21.0	20.5	0.4	2.1

*Core operating income is an earnings indicator the Company uses to measure regular business performance by subtracting selling, general and administrative expenses from gross profit.

While aiming to expand domestic and overseas sales, Lion plans to reinforce investment in future growth, resulting in profit on par with 2019.

 16

Let me now explain the background to the consolidated earnings forecasts for 2020.

Our basic approach is to aim for steady growth in net sales, but we have also factored in an increase in expenses for future growth this year. As a result, profit forecasts are on a par with the previous year.

The Company has not factored in the impact of the new coronavirus, as there are many uncertainties at this point in time.

2020 Key Measures

LION

Domestic

- Continue growth in the oral care field
- Expand presence in pharmaceuticals
- Capture demand from visitors to Japan

Overseas

- Accelerate growth in China
- Improve growth in Southeast Asia

The key themes for FY2020 are shown here.

In Japan, we will continue to focus on sustaining growth in the oral care field, expanding our presence in the pharmaceutical field, and capturing inbound demand.

Overseas, we will focus our efforts on accelerating growth in our Chinese Business and restoring growth in Southeast Asia, where growth was slightly stagnant last year.

Let me explain a little more about each of these themes.

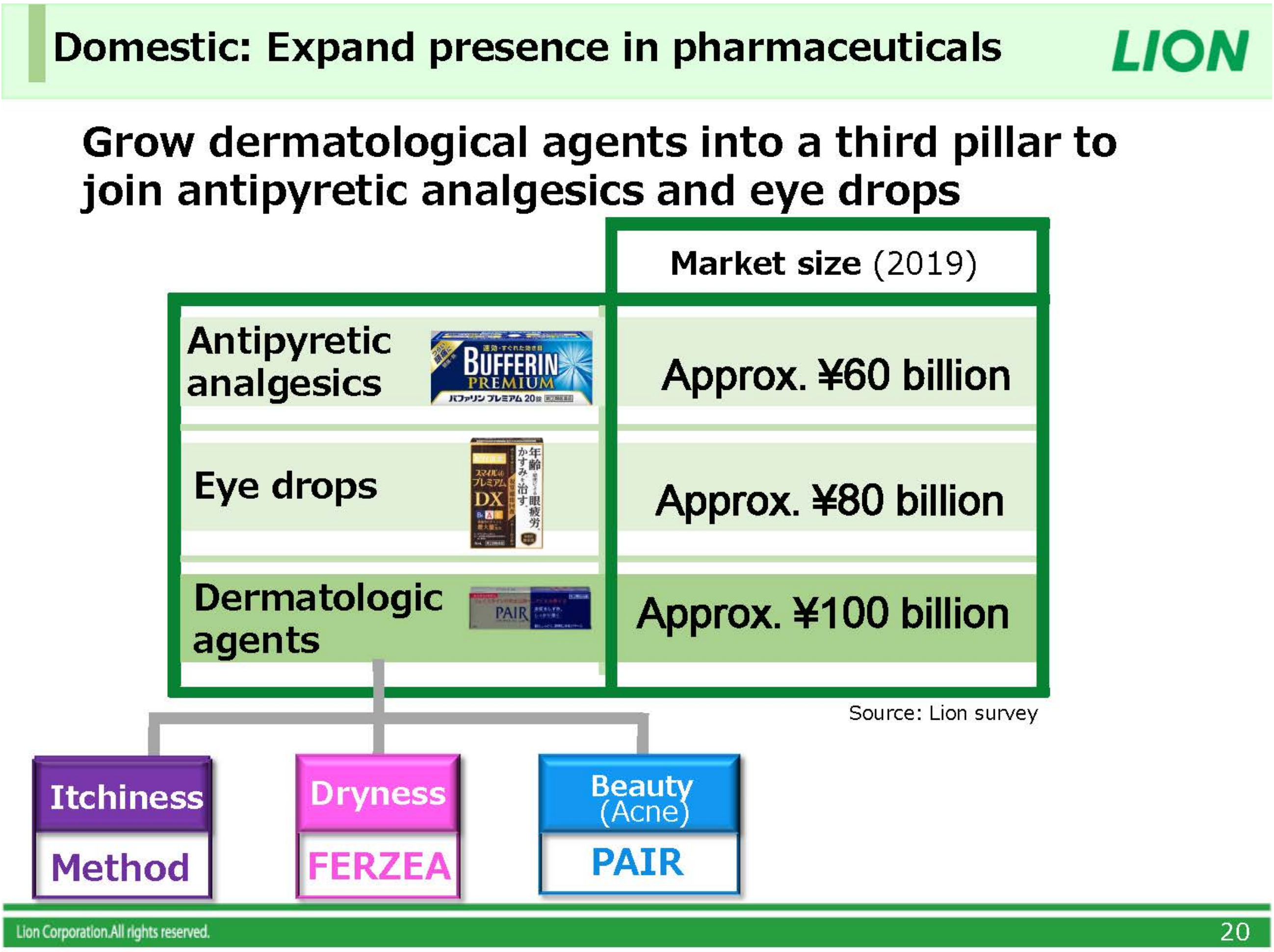
We believe that in order to sustain growth in the oral care field, it is necessary to establish oral care practices and increase the number of participants in oral care activities through proposals tailored to each generation.

In addition to launching new high-value-added products in the priority categories of cavity prevention, gum disease prevention, and bad-breath care, we will continue to cultivate each brand in order to establish oral self-care habits among as many people as possible.

This year, as part of this initiative, we would like to start an action to establish the habit of tooth brushing after lunch at the office.

The portable toothpaste set so far has had many demerits, such as unstylishness and bad hygiene. I believe this is a reason why we cannot increase the number of people who brush their teeth three times a day.

In April, we launched MIGACOT, a new product that resolves these complaints, and we are working to create oral care opportunities by promoting measures to encourage brushing at the office.



The second theme is to expand our presence in the pharmaceutical field.

Currently, the mainstays of our Pharmaceuticals Business are antipyretic analgesics and eye drops. In order to make dermatologic agents, which have larger market than the aforementioned two categories, into a third pillar, we will cultivate them under the brand names of "*Method*" for itchiness, "*FERZEA*" for dryness, and "*PAIR*" for beauty treatments, centered on acne, and including product extensions.

This year, we will focus on strengthening the area of itchiness.

Specific measures are as shown.

We incorporated the Encron technology acquired from Shiseido Medical, and will substantially renew the "*Method*" brand as a brand for the treatment of itching.

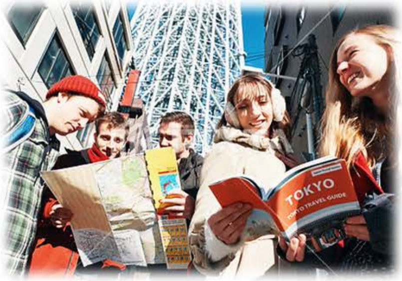
By creating a lineup for each body part and clarifying the appeal of the product at stores, we will strive to increase the ease of choice for customers.

Domestic: Capture demand from visitors to Japan

LION

Capture demand from the surge in visitors to Japan due to the Olympics and Paralympics

- Leverage mobile marketing
- Expand promotional products for visitors
- Increase recommendation sales



Move beyond capturing one-time demand to help expand cross-border and overseas businesses

The third theme is capturing inbound demand.

Recently, there have been concerns about a decline in inbound tourists due to the impact of the new coronavirus. However, the number of visitors to Japan is expected to increase this summer, due to the Olympics and Paralympics, and demand from inbound tourists is also expected to increase accordingly.

In order to capture inbound demand, we will take various measures, including the use of mobile marketing, in a multifaceted ways.

In addition, we will take measures to maximize business opportunities that will lead to increased sales in Cross-Border and Overseas Businesses, in order to avoid merely capturing temporary demand.

The first priority of the Overseas Business is to accelerate of growth in the Chinese Business.

Leveraging the strong trust on Japanese brands and reliability, we will expand sales channels for Japanese products and reinforce brand development. By capturing inbound demand and enhancing confidence in our brand, we will expand the sales volume of locally produced products in China in the future. We will accelerate these scenarios.

Specifically, in addition to strengthening approaches to Chinese consumers through a variety of sales channels and expanding the supply of Japanese products, we will foster brands through marketing that combines Japan's know-how with local strengths and expand the market through promoting preventive dentistry in cooperation with specialists. Through these and other initiatives, we will strive to make Lion brand loyal users among Chinese consumers.

Overseas: Improve growth in Southeast Asia

LION

Revise the laundry detergent-centered business portfolio

- Growing middle-income population
- Growing health care needs

Expand business in the personal care field

Increase high-value-added products in the home care field

*Personal care field: Oral care, beauty care
*Home care field: Fabric care, living care

24

The second is the return to growth in Southeast Asia.

In Thailand and Malaysia, where we struggled in the previous fiscal year, our business portfolio is centered on laundry detergents. As they are exposed to the risk of price competition, we struggled in the latter half of last year as well.

Meanwhile, in Southeast Asia, the middle-class population is increasing, and there is a steady increase in interest in health care and high-value-added products. We will review our current portfolio centered on laundry detergents and expand our Personal Care Businesses, such as Oral Care and Beauty Care, with the aim of accelerating growth in sales and profits.

At the same time, we will promote cost reductions in the home care field, which accounts for a certain size, as well as further researching the behavior, tastes, and local characteristics of consumers, in order to create value-added products that create new customs.

This year's initiatives are explained above. Now, please watch a video for about three and a half minutes. As I mentioned earlier, Lion would like to grow in Asia by leveraging its strengths as a Japanese company. We have such a strategy.

One of its strengths is, of course, its strong commitment to quality. In the video, we introduce our commitment to the flavor of mint, which determines the taste of toothpaste. Looking ahead, in addition to helping consumers understand our commitment to quality through our products, we will also promote our commitment to quality through video and other media. Please see.

Video: [Video showing Lion's commitment to manufacturing (approx. three and a half minutes).]

Kikukawa: In the harvest time of mints every year, our researchers go to mint fields and buy the blends that best fit our toothpaste.

I believe Lion is the only manufacturer in the world using natural mints with such a high level of mint taste. I believe continuing to produce products with a strong commitment to areas that are hard to see externally is the reason why we are highly supported also by overseas customers, and we would like to put even greater emphasis on these matters.

Shareholder Returns

LION

Annual dividend forecast up for a fifth consecutive year to ¥22

Payout ratio:	25.4%	23.6%	24.9%	22.7%	29.7%	30.5%

Basic dividend policy: Pay continuous and stable cash dividends (Target consolidated payout ratio of 30%)

Finally, regarding shareholder returns, based on our basic policy of continuously and stably returning profits to shareholders, we plan to increase the dividend for the fifth consecutive fiscal year, by JPY1 from the previous fiscal year to JPY22 per share.

That's my explanation. Thanks for your time.

Question & Answer

Q: As far as you know, what effect is the new coronavirus having?
A: There has been an increase in demand for hygienic products, such as hand soaps and disinfectants, both in China and in Japan. On the other hand, the number of international visitors to Japan is decreasing dramatically. In particular, the number of visitors from China, the largest foreign buyers of Japanese products, is decreasing. As such, we believe that sales will fall in proportion to the decrease in the number of tourists.

Q: What risks does the virus present for Lion going forward?
A: There still are many uncertainties, but a significant risk is that to production. We have a factory in Qingdao, China, that produces mainly oral care products, and there is a risk that we may not be able to maintain stable operations there. A second risk is whether it will be possible to procure a stable supply of raw materials for our factories. We expect to be able to do so for the foreseeable future, but if current conditions drag on, it is unclear whether or not we will be able to maintain procurement over the long term.

Q: What was demand from inbound visitors to Japan like in 2019?
A: While demand from inbound tourists generated more than ¥6.0 billion in sales in 2018, such sales shrank to just under ¥4.5 billion, about three-quarters that figure, in 2019. We think that the biggest factor behind this decline was a decrease in proxy purchases. Excluding the transfer of the insecticide business, the decline in sales in the Pharmaceutical Products Business was almost entirely attributable to the decrease in sales to inbound tourists and proxy purchases.

Q: How much demand from inbound tourists have you factored into your plans for fiscal 2020?
A: I will refrain from giving the exact figures at this time. However, we expect the Olympics and Paralympics to boost demand over the summer, so, despite the present causes for concern, we expect inbound demand at about the 2018 level.

Q: Looking at positive and negative factors affecting core operating income in 2020, the impact of raw material costs is opposite what it was in 2019. Why is that?
A: The price of crude oil is currently very low, which we believe will lead to a reduction in costs compared to the average for the previous year. On the other hand, natural fat and oil prices have been consistently high. The difference is what we expect after offsetting the two.

Q: The forecast impact of competition-related expenses is also opposite that of 2019. Could you explain that?
A: Although it is not apparent in IFRS reporting, we have intentionally shifted part of our advertising expenses from competition-related expenses to sales promotion expenses, which are deducted from sales. Moreover, as competition intensified in the fourth quarter, we decided to step up competitive efforts in some areas. So, overall competition-related expenses have not really been reduced. In fiscal 2020, our policy is to once again increase expenses related to brand development—mainly advertising expenses—which resulted in this change in the breakdown.

Q: Does that mean that you aim to improve results by increasing sales in 2020?
A: Yes, of course. In particular, in the domestic Consumer Products Business, sales were mostly firm in the fiscal year under review, and we believe that we can expect growth at that level in the current fiscal year as well. A key issue will be recovery in Southeast Asia, which has been somewhat stagnant. The other question is when sales in South Korea, which fell sharply in the second half of 2019, will recover, but this is somewhat out of our control.

Q: Could you give us a summary of the decline in demand following the consumption tax hike?

A: We believe that the recoil ended in December, at least in our business areas, and that demand more or less returned to normal in January. Overall consumption was somewhat lackluster in the first half of January, but we believe this was not an effect of the consumption tax hike. However, reflecting the impact of the new coronavirus in the latter half of the month, total sales in our business areas for January came to 103% of the previous year's level. Given this, we believe that demand has basically returned to normal.

Q: Could you tell us about the state of the fabric care market last year and your forecast for it in 2020?

A: The overall fabric care market was somewhat slow, growing only about 2% year on year, which was a little less than growth seen in other areas. This has not improved significantly since the beginning of January, so we expect to have to make up for it in other fields.

Q: Are we correct in understanding that the effect of the new coronavirus has not been factored into the plan for 2020?

A: That's right, it is not factored in.

Q: How were conditions in Thailand in fiscal 2019?

A: In Thailand, price competition in the detergent business, which accounts for a large part of our business there, has intensified even more than in Japan. We are advancing profit-focused management to avoid entering into excessive price competition. Although sales growth slowed, we achieved a larger increase in profits than in 2018, so I believe that the direction of management is sound.

Q: How were conditions in South Korea in 2019?

A: The situation in South Korea has worsened markedly since July, and the year-on-year contraction in the fourth quarter was even larger than that in the third. Although our products are not specifically being targeted by boycotts, we are still utterly unable to negotiate with retailers, and our presence in retail outlets is declining. If this situation drags on, that presence will fall further, so we urgently hope that the business environment, including geopolitical factors, will soon improve.

Q: This year, you expect overall growth of 1.9% in the Overseas Business. What do you expect in terms of sales in Thailand and South Korea?

A: Although we cannot give specific figures, in South Korea, we believe it inevitable that sales from January to June will remain as persistently sluggish as they've been over the last six months. Nevertheless, we expect a gradual recovery from July onward.

In Thailand, we will maintain mostly the same profit-focused management as last year. In fields other than detergents, we expect growth to be a little stronger, and so are aiming to boost year-on-year growth by about 1% compared with 2019.

As for growth in the Overseas Business, we will focus on China.

Q: How much growth do you expect in China in 2020?

A: Last year, we were able to secure growth of about 20%, so we would like to aim for that level this year as well.

Q: Compared with 2019, how much do you expect new products to contribute to sales in Japan in 2020?

A: The number of new products will be fewer than in the latter half of 2019, but we launched a considerable number of new products in the second half of 2019, mainly in oral care. This year the number will be about the same as usual.

Q: In what fields are you planning to introduce new products?
A: We will launch MIGACOT, as presented earlier, and other oral care products, as well as additional products in the bath cleansing category, which continues to perform favorably, to further increase sales. We also plan to substantially revamp a sub-brand in fabric softeners, sales of which are also strong. These are the main new and improved products we are planning.

Q: Does that mean that the contribution to results of new and improved products will be smaller than in 2019?
A: It will be the same on a full-year basis. Although not all product lineups for the second half of 2020 have been finalized, I expect that we will launch about the same number of products as usual. We have great expectations for the major revamp of the *Method* brand.

Q: In the fabric care field, competition intensified in the fourth quarter of 2018 and has now intensified in Thailand, as well. You said that you think the direction of management is sound. However, if competition is likely to continue intensifying, it seems like you might continue to have difficulty securing sales. Since fabric care accounts for a large portion of total sales, it seems like this could make it difficult to secure profit. What are your thoughts on this?
A: For the current fiscal year, based in part on what we learned in 2019, we have been careful not to set excessively high growth targets for the fabric care field in Thailand and Japan. Rather, we are shifting focus more than before toward growth in other countries and other fields. So, although we have not eliminated it, we have reduced the level of risk in this area.

Q: Could you please explain in more detail how you will expand fields other than detergents in Thailand this year?
A: In Thailand, we have for some time been focusing on nurturing personal care products, such as oral care products and hand soaps, and the amount of total net sales that such products account for has been rising. However, this growth has not been fast enough to offset the slowdown in the rate of growth in fabric care, presenting a major challenge. We will therefore concentrate new products in personal care fields, especially oral care.

Q: Core operating income for 2019 was ¥1.45 billion below the forecast published at the beginning of the year. How much of this difference was due to performance in Hong Kong and South Korea, and how much was attributable to the domestic Fabric Care Business?
A: Core operating income basically reflected the respective decreases in net sales. Hong Kong and South Korea together saw a reduction in net sales of approximately ¥5.0 billion. Since the total gap between the net sales result and forecast was around ¥12.0 billion, about half of the difference in core operating income can be attributed to the decrease in gross profit in Hong Kong and South Korea as a result of the decline in sales.

Q: Were there any other major factors behind the difference between actual core operating income and the forecast?
A: Operations in Malaysia struggled in the fourth quarter. Reflecting a tax hike in Malaysia in 2018, third-quarter sales in 2019 were down on a year-on-year basis—the opposite effect of the 2019 third-quarter tax hike in Japan. We thought that sales would rebound in the fourth quarter, but the increase was less than expected, and gross profit declined substantially, reflecting the decline in sales. About two thirds of the total gap in core operating income was attributable to the Overseas Business (including the factors just explained) and the Industrial Products Business, while the remaining third was mainly due to performance in the domestic fabric care field.

Q: So, South Korea and Hong Kong accounted for close to half of the difference?
A: Yes, almost half.

Q: In that case, if not for South Korea and Hong Kong, would core operating income be about ¥0.7 to ¥0.8 billion higher this year?
A: Yes. We hope it will go that way.

Q: Will the effect of the new coronavirus be positive or negative for Lion?
A: We really do not know. Earlier, I only mentioned that the threat to procurement of raw materials for the Qingdao Plant in China. However, many of the raw materials used in products we produce in Japan, as well as a number from further upstream, are most likely produced in China. If even one of these is unavailable, we might be unable to make a complete product. We are still finding out how supply from China will be impacted going forward, so there is no guarantee that such risks will not affect us.

Q: Could you be more specific?
A: For example, we may purchase raw materials for toothpaste made in Japan from Chinese manufacturers. Even domestically produced raw materials could very well be themselves made with materials from China. There are still parts of our supply chains we are unsure of, so, as I said, there are still some risks.

Q: I imagine that, when formulating the medium-term management plan, you probably planned to grow via M&A, in addition to ordinary business. Where do you stand now on M&A?
A: Until 2017, we broadly targeted M&A overseas with the intention of expanding our area of operations and in Japan in categories where M&A could generate greater synergies.

Since 2018, under the LIVE Plan, we have refined our targets quite a bit, aiming to reinforce specific areas within specific categories, or, overseas, specific functions in certain geographic areas.

Q: Could you share your general thoughts about differences between the medium-term management plan and results so far? For example, are things not going as planned? Are you reworking your plans to start again?
A: We are not able to give specifics at present, but efforts have already begun to take shape, and I think we will be able to talk more about them in the near future. It is true that there has been some delay, but this does not mean that we have given up or are rethinking our strategy. We have settled on a few specific ideas and are beginning to move into action, as considerations reach an intermediate stage.

Q: It seems like you are finally getting ready to put your growth strategies into action.
A: Yes. Short-term results have been affected by geopolitical risks and severe market fluctuations, and things have turned out a bit worse than expected on a number of fronts. However, we are now steadily making forward-looking investments in line with our growth strategy. In this respect, please understand that we are in the process of preparing for things to come.

Disclaimer