November 5, 2020
Lion Corporation

Analyst Q&A (Summary)

Nine Months Ended September 30, 2020

Q: How did each segment perform in the third quarter (July–September)?

A: In terms of sales, the Consumer Products saw year-on-year declines in all fields except beauty care, due in part to market recoil following the surge in demand ahead of the consumption tax hike in 2019. The Industrial Products business struggled in its mainstay fields, and sales fell year on year. The Overseas business saw shrinking markets in Southeast Asia, reflecting stay-at-home orders and restrictions on activity, and laundry detergents, a mainstay for Lion there, particularly struggled. In Northeast Asia, sales in China remained strong, and in South Korea, the worsening business environment from summer 2019 onward was reflected in year-on-year comparisons, yielding an increase in sales.

Q: Why were business results in China so strong?

A: There were three major factors. Sales of toothbrushes, which are mainly produced locally, were strong; sales of toothpaste imported from Japan grew, mainly via e-commerce channels; and sales of hand soaps more than doubled year on year.

Q: Going forward, will the profit ratio remain at the high level seen in the third quarter? If so, it seems like profit for the year would be higher.

A: The increase in profit in the third quarter was mainly attributable to changes in the sales mix. Cost-reduction measures, which we had expected to stall, also contributed. In addition, we saw a decrease in competition-related expenses that was mainly due to a decline in advertising expenses, as we held back on advertising in the third quarter due to uncertainty about the business environment caused by the novel coronavirus pandemic. In the fourth quarter (October–December), we will aggressively invest in advertising and other competition-related expenses.

Q: How are efforts to increase hand soap production going?

A: Since August, production capacity in Japan has been more than twice last year’s level, and we have been able to create a supply framework to meet market growth. We are also working to increase production overseas.

Q: Why have you not changed the forecast for net sales for the full year?

A: After factoring in both positive and negative factors, the overall net sales forecast for the full year is unchanged. Positive factors include growth in sales of oral care and hygiene-related products such as hand soaps. Negative factors, on the other hand, include fierce competition in the domestic fabric care field, decreased demand from overseas visitors for pharmaceutical products, and unfavorable conditions overseas, such as market contraction risk in Thailand due to decreased consumption.

Q: Competition-related expenses saw a year-on-year ¥1.2 billion decrease in the third quarter. Will they really increase ¥3.6 billion year on year in the fourth quarter?

A: In the fourth quarter, we are making aggressive investments in competition-related expenses to stimulate the flagging toothbrush market, and to expand our brand presence in highly concentrated liquid laundry detergents and fabric softeners. We are also focusing on developing markets for products newly released this autumn.

Q: What kind of specific measures are you taking in oral care?

A: We are particularly implementing measures to stimulate the toothbrush market, which has been shrinking. We are ramping up TV commercials emphasizing Lion's uniquely thin toothbrush heads, encouraging more frequent toothbrush replacement through in-store displays, and carrying out a ¥100 million rebate campaign to encourage buying. We are also reinforcing efforts to encourage the use of other dental care products to promote the formation of good oral care habits.

Q: What are your views on current market trends?

A: Overall unit prices continue to rise, driven by the shift toward higher-value-added products. However, consumer mindsets and behavior are changing as a result of the novel coronavirus pandemic, causing sales volumes to rise in some fields and fall in others.

Q: The price of palm oil is rising. How much of a risk do you see this as?

A: For the second half of the year, we assumed a palm oil price of 2,800 Malaysian ringgit per ton, but the price has recently risen above this. In Japan, palm oil is purchased via advance contracts, so we do not expect any negative impact this year. Overseas, we use spot purchasing for some procurement, so there may be some negative impact, but we do not expect the overall negative impact to be major.