November 5, 2021
Lion Corporation

Analyst Q&A (Summary)

Nine Months Ended September 30, 2021

Business Performance

Q: How did sales and profit in the third quarter (July–September) compare with plans?

A: Net sales were slightly lower than planned, reflecting slow recovery in Southeast Asia and recoil from strong hand soap sales in the previous year, but were still more or less on par with plans, overall. Core operating income was also within the range of our assumptions.

Q: How did the major product categories of the Consumer Products segment fare in the third quarter?

A: On a total net sales basis, oral care products continued to see growth of about 5%. Sales of toothbrushes recovered, which we believe is partly due to marketing focusing on thin head models. Sales of beauty care products gradually bottomed out and recovered to more than 80% of the levels in the same period of the previous fiscal year. The mainstay hand soap market has held steady at around 1.4 times its size in 2019. Sales of fabric care products in the third quarter were down around 5% year on year, as sales of regular liquid laundry detergents decreased. Living care products saw strong sales growth, bolstered by the launch of a new toilet cleaner product as well as ongoing double-digit sales growth for LOOK Plus Bath Cleansing and LOOK Plus Bath Antimold Fogger. Looking at pharmaceutical products, although sales of antipyretic analgesics have quieted down, the category saw year-on-year sales growth of about 2%.

Q: I understand that the decrease in profit in the third quarter was due to changes in sales and the product mix, but could you give us a little more detail?

A: In the third quarter, higher sales bolstered profit by several hundred million yen. On the other hand, negative factors affecting profit included changes in the product mix—particularly as sales of highly profitable beauty products declined year on year even as those of industrial products rose—as well as an increase in depreciation due to the start of operations at the new toothpaste factory in Sakaide City, Kagawa Prefecture.

Q: Could you tell us more about third-quarter results by country in the Overseas business?

A: In the Overseas business, third-quarter sales to external customers were up 3.9% year on year.

In Southeast Asia, weak consumption due to the COVID-19 pandemic negatively affected results in Thailand. In Malaysia, despite challenging market conditions, we achieved a year-on-year increase in sales on a local currency basis and have been successful in asserting a strong market presence. In laundry detergents, we have taken steps in response to circumstances in each country. Also, oral care product sales grew in Malaysia.

Turning to Northeast Asia, third-quarter growth in China was below 10%. This was mainly due to adjustments to distribution inventories made in the third quarter to resolve product backlogs resulting from lower-than-expected sales during the 618 online shopping festival, reflecting market stagnation in China. However, brick-and-mortar sales were up by 50% year on year. In the fourth quarter (October–December), which includes the Double 11 online shopping festival, we are working to achieve further growth in e-commerce sales as well as growth in brick-and-mortar sales. In South Korea, demand for hygiene products has settled down and the laundry detergent market contracted, reflecting stagnant consumption stemming from the pandemic. Nevertheless, net sales to external customers in South Korea (at constant currency excluding exchange rate fluctuations) saw a turnaround, with a year-on-year increase in the third quarter that we expect to continue in the fourth quarter.

Forecasts

Q: What do you expect to be the full-year impact of raw material cost increases? How will you absorb these increases?

A: In August, we estimated the full-year impact at ¥2.4 billion, but the impact in just the third quarter came to ¥1.2 billion, and we expect it to be about the same in the fourth quarter. To achieve our profit plan, we aim to absorb this impact by reducing costs, adjusting the product mix and streamlining competition-related expenses, among other measures.

Q: In terms of total cost reduction, where and to what extent do you see room for cuts going forward?

A: One area is in further optimizing inventories to reduce freight and storage expenses and logistics costs. Also, over the course of the year we have been making major investments in core systems. We expect these systems to help improve operational efficiency and, with regard to the handling of raw materials, contribute to rationalization, process simplification and labor saving.

Q: Can you not pass along higher material costs by raising product prices?

A: In toiletries, it would be difficult to pass along costs by simply raising prices. We are considering raising prices in conjunction with product renewals that offer additional added value or by revising product volumes. Ultimately, customers' willingness to buy our products determines where we can set prices; we cannot just raise prices across the board to accommodate our needs as a manufacturer. This is true both in Japan and overseas.

Q: Could you tell us about your profit plan for 2022?

A: We are still drawing up our plans for next year, including the new medium-term management plan. However, we see the period leading up to 2024 as one for forward-looking investment aimed at achieving the targets of Vision 2030. Of course, depreciation will rise in step with investment, so rather than aiming for rapid profit growth, we will be prioritizing increasing the top line and our market presence as we focus on securing EBITDA, which includes both earnings and depreciation. Although recent rises in raw material costs have been greater than anticipated, to absorb costs we will enhance total cost reductions and implement cost cutting measures ahead of and beyond what is scheduled. By doing so, we will change the overall expense structure over the coming three years.