November 4, 2022
Lion Corporation

Analyst Q&A (Summary)

Nine Months Ended September 30, 2022

Business Performance

Q: In the first nine months, the progress of measures to counter higher than initially expected increases in raw material prices lagged by ¥800 million compared with your plan. Could you tell us why that was and how you plan to make up this difference?

A: The lag of ¥800 million is due mainly to two factors: 1. Worsening of the segment mix, as the Consumer Products business (which has a relatively high profit margin) grew less than expected, even as the Overseas business grew, and 2. Promotional expense control efforts did not progress as much as planned, especially in the domestic Consumer Product business. To make up the difference, we will work to increase sales in fields that are performing strongly and shift toward higher-value-added products. In the oral care field of the domestic Consumer Products business, we are decreasing efforts to promote low-end products based on price and instead shifting efforts toward sales promotion of high-value-added products. We expect to see the results of these efforts in the fourth quarter.

Q: One of those response measures, “raise sales prices, control promotional expenses by revising special sale prices and frequency,” had an effect of ¥1.2 billion in the July–September period. Could you give us a breakdown of that figure?

A: We do not disclose those specific numbers, but the majority came from the Overseas and Industrial Products businesses. The domestic Consumer Products business accounted for only a small part.

Q: It seems like Lion’s business in China (Qingdao Lion) did fairly well despite a challenging business environment. Why was that?

A: In China, to cover the temporary decreases in sales caused by lockdowns related to COVID-19 and the change in e-commerce vendors, we reinforced sales via offline sales channels, which included expanding from major metropolitan areas to the surrounding regions. Also, in terms of products, sales of our *White & White* toothpaste, which we have customized to local needs and produce locally as part of our glocalization strategy, have been favorable.

Forecasts

Q: Has your view of the full-year impact of rising raw material prices changed?

A: Our assumption that rising raw material prices will have a full year impact of negative ¥13 billion is unchanged. Raw material prices themselves are softening, but this effect is cancelled out by the exchange rate effects (from the weak yen) on raw materials purchasing in Japan, which is conducted in yen.

Q: Where do you see results for the year ending up, and what is your approach going into next year and beyond? Will you be able to secure a profit this year by controlling costs?

A: As for this year's results, we are not necessarily aiming to reach our targets through cost reductions alone, but through overall control, which includes increasing gross profit through top-line growth, as part of measures under the first year of the medium-term management plan. In addition, we are working to shift from the price-based promotion of low-end products to the promotion of high-value-added products over the medium to long term. So, if these efforts are successful, and raw material markets settle down, we think that our sales promotion expense control measures will provide an advantage in the future.

Q: Next year, I believe you plan to launch new fabric care products and, in the spring, to relocate your head office. Could you give us an idea of what to expect in terms of the costs of these one-off factors?

A: We expect expenses next year to be concentrated in the first half, including an increase in promotional costs associated with the new fabric care products and an estimated ¥500–¥600 million in one-off expenses due to the head office move. We also expect the impact of the rise in raw material prices to persist through the first half, so profit for the first and second halves could differ quite dramatically.