May 9, 2023
Lion Corporation

Analyst Q&A (Summary)

First Quarter Ended March 31, 2023

Core Operating Income Increase and Decrease Factors

Q: Please explain what led to the increased negative impact of higher raw material costs.

A: The reduction in costs anticipated at the beginning of the year, factoring in the effect of the exchange rate, has been somewhat delayed. The effect of this delay was especially great in Japan, however, overseas profit has already moved to the plus side in the first quarter, year on year.

Q: How will you cover the greater impact of raw material costs?

A: In the current fiscal year, we plan to offset this impact with strong marketing and composition changes, which we expect to generate a sales increase of ¥2.5 billion. At the same time, we anticipate higher overseas sales, plan to limit special sales and will promote the shift to high value-added products.

Q: What is the breakdown of the increased other expenses?

A: Other expenses included one-time fees accompanying the relocation of our head office, rent for the new head office, and amortized and one-time maintenance fees associated with the installation of the new core systems, each amounting to approximately ¥400 to ¥500 million. Other than rent, these expenses are largely nonrecurring from the second quarter onward.

Conditions by Business Segment

Q: I get the impression that the domestic consumer market was sluggish in the first quarter, what is your view of the situation?

A: In Japan, the market was generally stagnant. We believe that the slowdown in the household products market was caused by a reduction in stockpiling by households and the market will recover with time. The new fabric softener SOFLAN Airis was launched about a month ago and is currently performing as planned. The number of distributing stores started off well, far exceeding the target, and the unit price per store is also rising. Going forward, we believe that shifting emphasis to refill packs will prove key to establishing the brand and will be one of the brand’s evaluation axes.

Q: Turning to the overseas business, could you explain the factors contributing to the ¥1.56 billion year-on-year increase in segment profit?

A: Conditions in China were favorable, although the business in Malaysia struggled due in part to price competition in laundry detergents. Three factors contributed to the increase: growth in the Qingdao Lion business in China, a shift in product composition toward the highly profitable personal care business in Southeast and South Asia and lower raw material prices.

Qingdao Lion began working with a new e-commerce distributor in the second half of 2022, and flagship store sales have recovered. Marketing efforts on various e-commerce platforms have also resulted in a very high growth rate compared with the previous year, when there was a temporary sales slowdown.

Q: What are the reasons for the significant ¥1.55 billion year-on-year decline in segment income on a consolidated adjustment basis in the first quarter?

A: Along with manufacturing, the Group handles raw material procurement and sales internally, which can contribute to relatively high inventories and large unrealized profits. In this case, the decline was due to a planned increase in the production of existing products and the construction of production facilities in preparation for new product launches in the spring and fall. The situation is temporary, and is expected to improve from the second quarter onward.

Inbound Sales Situation

Q: Do you think the inbound market is recovering?

A: The first quarter results were about double last year's figures, amounting to slightly over ¥1.0 billion. Acne medicines and cooling sheets for feet are selling well. Acne medicines are popular among Chinese tourists, and cooling sheets for feet are popular among Korean tourists. We estimate that only one third of these sales are purely from tourists, however, if current conditions continue, inbound tourist sales are on track to reach pre-COVID-19 levels.