

Date and time:

Wednesday, November 8, 2023, 16:00–16:55 (JST)

Respondents:

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- 1. You would record approximately 25.0 billion yen of structural reform expenses in the fourth quarter of FY2023 for the structural reform of human capital. Can you share with us the details of this initiative and its decision-making process?**

Career support means providing opportunities that match each employee's career plan and lifestyle. We provide reskilling support for employees to work at new workplaces within and outside the company, as well as financial support such as our special career support plan that utilizes the voluntary early retirement program. It is difficult to estimate the scale of people as employees can voluntarily apply for the program. However, we estimated this amount while considering the high interest of employees in pursuing careers outside the company according to the engagement survey results and the scale of additional payments in the early retirement program.

Do the special additional payments account for most of the 25.0 billion yen?

Not the entire amount, but they account for the most part.

How does fixed cost reduction affect the structural reform of human capital?

Of the 30.0 billion yen in profit improvement effect due to structural reforms, the reduction in fixed costs including an impairment loss accounts for half of the effect, with the remainder being an improvement in marginal income.

- 2. How has the core operating income for the first nine months of FY2023 been progressing against the company's plan?**

The core operating income exceeded the plan by more than 5 billion yen.

Lower raw material prices and strategic price increases were higher than the company's plan and have contributed positively to the results. While SG&A expenses increased by 6.0 billion yen compared to the plan, there was a significant contribution to the results by controlling marketing expenses in China in association with the release of treated water, and saving marketing expenses in Southeast Asia to prioritize profit while avoiding unreasonable sales expansion.

What is the certainty of achieving the core operating income target of 120.0 billion yen for the fiscal year ending December 31, 2023?

We aim to achieve the target of 120.0 billion yen despite the risk of impact on the Cosmetics Business in association with the release of treated water.

3. Operating income decreased in the Cosmetics Business. Will you explain this for each region?

Operating income fell most sharply in China. Globally, structural reform is making steady progress, except for China, with the sales composition of G11 brands increasing to 73%.

Can you share the reason for the low sales increase in the Cosmetic Business in Japan?

Excluding sales related to China (mainland China, cross-border e-commerce, travel retail), global sales are growing steadily by nearly 5%. Sales of G11 brands that we focus on grew by 2% globally and 11% in Japan.

4. Can you share the reason why marginal income improved in the Chemical Business in the third quarter?

That is attributable to improved performance in the United States and high-value-added products. While the performance is moving toward improvement, it has yet to be strong.

5. Core operating income improved by 8.2 billion yen in the Hygiene and Living Care Business in the third quarter of FY2023. What is the breakdown between fabric and home care, and sanitary? Is the effect of the structural reform in baby diapers showing up?

The core operating margin of fabric and home care products improved to nearly 17% in the third quarter. Currently, the effect related to the impairment loss in the baby diaper business has yet to be seen as it will show up in FY2024 or later.

Can you explain the details of production optimization in the baby diaper business in Japan?

We optimized production throughout Japan in line with the forecast for future demand and recorded an impairment loss. We will reduce the number of production lines in factories in the future as necessary.

Is there an impact on baby diapers exported from Japan to China in association with the release of treated water?

There is an impact.

6. The expected effect from strategic price increases in household and personal care (H&PC) products would be an increase of 9.0 billion yen in the fourth quarter of FY2023 year on year.

I would like to know why the effect will decrease compared to the third quarter.

Although the effect of price increases will continue to appear during the fourth quarter, the effect will seem smaller in terms of the year-on-year comparison because we made significant price increases in the fourth quarter of FY2022. At the beginning of FY2023, we announced that we would aim to implement price increases in 100% of items, and currently, we have achieved 70%.

Does the price increase target in 100% of items remain unchanged?

We want to implement price increases for more items, but our paper products compete with private brands in some categories and it is difficult to achieve price increases in 100% of items. In addition, while the price increase coverage is essential, the Health and Beauty Care Business has more products with a high marginal income rate than the Hygiene and Living Care Business. As such, focusing too much on price increases would reduce the volume, resulting in a decrease in profit. Therefore, we aim to improve profit by implementing price increases and increasing the proportion of high-value-added items.

7. What is the reason for the change in the forecast with respect to the 5-billion-yen decrease in raw material costs versus the plan?

The main factor is the decline in crude oil prices. The prices of naphtha produced in Japan are in a declining trend in the second half of FY2023 with a time lag, and so we expect the cost of packaging materials, mainly those made from plastic, will contribute more positively than we initially anticipated.

What is your outlook for the cost of raw materials in FY2024?

We assume the cost will be almost the same level as FY2023. In light of the situation in the Middle East, there is more likelihood of risk regarding cost increases rather than decreases.

What were the sales for the first nine months compared to the plan?

Sales in the Consumer Products Business were almost as planned. Progress in sales appears weak because we prioritized improvement in profit. We have implemented strategic price increases while improving sales efficiency in Southeast Asia alongside other regions.

To what extent does the impact in association with treated water have on sales in China?

Some H&PC products have been impacted, but the greatest negative impact has been several billion yen on cosmetics.

What is the progress of net sales in the fourth quarter of FY2023?

Net sales in the Consumer Products Business are expected to decrease year on year, significantly affected by a decline in China. In Japan, the business is steady and growing beyond the market.

Note

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