

Date and time:

Thursday, November 7, 2024, 16:00-16:50 (JST)

Respondent:

Masakazu Negoro, Representative Director, Senior Managing Executive Officer

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**1) Can you tell us the differences, on an itemized basis, between the FY2024 operating income forecast in the second quarter and the third quarter?**

1. Selling prices should be viewed in conjunction with raw material prices. The forecast for raw material prices and selling prices together was an increase of 20.5 billion yen in the second quarter and an increase of 21.5 billion yen in the third quarter. The forecast in the third quarter is higher than that in the second quarter. Price increases and the promotion of high-value-added products are progressing smoothly.
2. The decrease of 7.0 billion yen regarding sales volume compared with the forecast in the second quarter was due to a decrease in sales resulting from further reductions in distribution inventory within the Cosmetics Business in China.
3. The decrease of 2.0 billion yen regarding other cost of sales was due to a difference in product mix caused by sales growth in the Household and Personal Care Business and a decrease in sales in the Cosmetics Business.
4. The decrease of 5.0 billion yen regarding SG&A expenses was due to improvements in the accuracy of marketing expense estimates and reductions in outsourcing and other expenses.
5. The increase of 4.5 billion yen regarding impact of currency translation, other income and expenses was due to gains on the disposal of lands, currency gains, and a review of the risks associated with the Cosmetics Business in China.

**Has there been a change in the use of marketing expenses included in SG&A expenses since the forecast in the second quarter?**

We have not changed our plan to increase marketing expenses by 10.0 billion yen year-on-year in FY2024. Of this amount, 60% will be spent in Japan and 40% outside Japan. Our primary markets outside Japan are China and the U.S. In China, we will concentrate on expanding *Bioré UV* and *Laurier* sanitary napkins, while in the U.S., our focus will be on the *Bondi Sands* premium skincare brand. We will steadily invest in high-value-added products and the development of focus brands.

**2) I would like to ask about your policy on future price increases and their feasibility.**

There is no change to our policy of increasing prices by promoting high-value-added products. In particular, we will focus on adding value to new products and setting prices that reflect their value. Along with price increases, we will continue implementing various measures to further enhance ROIC, such as optimizing the product mix, increasing efficiency by

concentrating marketing investments on key brands, reducing inventory levels, and conducting TCR activities to lower costs.

**Given the ongoing efforts in your shift to premium products within the hair care market in Japan, can you share the reasons for the year-on-year decreases in operating income and selling prices in the Health and Beauty Care Business in the third quarter?**

The decline in operating income was driven by lower U.S. sales due to a strategic decision not to meet distributors' discount requests to protect brand power, upfront marketing investments for hair care products in Japan and skincare products in Asia, and an increased fixed cost burden for *Bondi Sands*. The negative like-for-like growth rate by price in net sales was due to competitive price reductions in some parts of Asia.

**3) I would like to ask about the status of sales in your Cosmetics Business in China and the assumptions for the expected completion of the distribution inventory optimization within FY2024.**

Sales in the Cosmetics Business in China decreased by around 30% year-on-year. Although the market in the fourth quarter is projected to decline by 5% year-on-year, shipments for the *Curél* derma care brand and *freepius*, a hypoallergenic brand featuring Japanese and Chinese botanical extracts, saw a 20% increase on Double 11 (W11/Singles Day) compared to the same day last year. This is only a preliminary figure, though there are signs of recovery. We expect the market to grow by 2% to 5% in 2025, and we will adjust shipments to achieve optimal inventory under such conditions.

**4) Can you tell us about the outlook for FY2025 for the expansion of the six focus brands and other brands in the Cosmetics Business?**

Our plan is to make targeted marketing investments in six key brands through enhanced selection and focus, aiming to expand the business, including global market development. In Japan, we will operate our business with 19 brands, including these six brands. Marketing investments and product development will be more focused, and for other brands outside of these six brands, we will strive to increase loyal users with high repeat rates. In addition, we will improve the efficiency of our business by upgrading our marketing and reviewing our product development cycle. By concentrating on these six brands, we will also review our organizational structure, including reallocating personnel in research and brand development, with the aim of enhancing overall business profitability.

**5) Can you tell us about the future pricing strategy for the Fabric and Home Care Business?**

In the Fabric and Home Care Business in Japan, we will continue to promote high-value-added products and set prices reflecting that added value, while also developing products that meet customer needs. In Asia, we are currently working to strengthen our foundations for profitability. Going forward, we will adopt a similar approach in the Fabric and Home Care Business as we did with sanitary products, refining product design through scrum-style collaboration across research, production, and business areas. We will also strengthen brand creation by strategically focusing marketing expenses on select brands through selection and focus. We are not considering lowering prices in either Japan or Asia.

**Note**

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