Financial Results for the First Half of 2019

Lion Corporation
August 6, 2019

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Financial Results for the First Half Ended June 30, 2019

(Billions of yen)	Jan.–Jun. 2019	Jan.–Jun. 2018	Y-o-Y change		Deviation from forecast
			Amount	%	
Net sales	167.3	168.4	(1.1)	(0.7)	(4.6) (2.7%)
Core operating income % of net sales	12.4 7.4	12.5 7.5	(0.0)	(0.7)	(0.5) (4.2%)
Operating profit % of net sales	12.8 7.7	17.8 10.6	(4.9)	(27.9)	0.3 3.1%
Profit for the period attributable to owners of parent	8.6	13.9	(5.2)	(37.6)	0.1 2.2%
EPS（Yen）	29.89	47.95	(18.06)	(37.7)	0.65 2.2%

* Core operating income is an earnings indicator the Company uses to measure regular business performance by subtracting selling, general and administrative expenses from gross profit.

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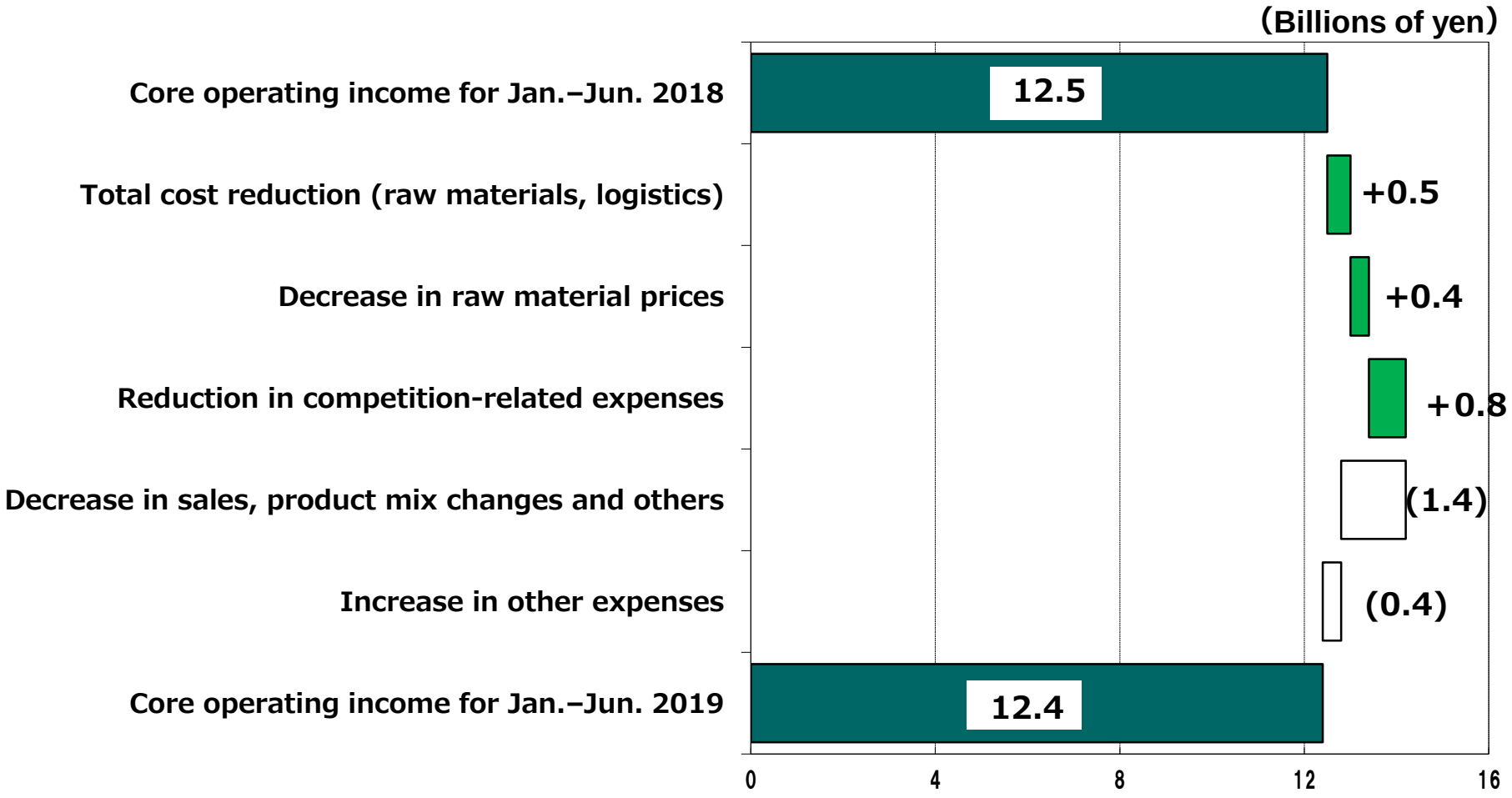
Year-on-Year Changes in Core Operating Income



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Results by Business Segment

(Billions of yen)	Net sales*				Segment profit (Core operating income)		
	Jan.–Jun. 2019	Jan.–Jun. 2018	Y-o-Y change		Jan.–Jun. 2019	Y-o-Y change	
			Amount	%		Amount	%
Consumer Products	110.2	110.8	(0.5)	(0.5)	7.7	(0.2)	(3.6)
	102.8	102.6	0.2	0.2			
Industrial Products	27.0	28.3	(1.3)	(4.6)	0.7	(0.5)	(42.4)
	16.0	16.1	(0.1)	(0.8)			
Overseas	51.4	52.2	(0.7)	(1.4)	3.6	0.7	26.9
	46.7	46.9	(0.2)	(0.6)			
Other	15.5	15.4	0.1	0.9	0.5	(0.0)	(10.8)
	1.6	2.6	(1.0)	(38.3)			
Adjustment	(36.9)	(38.2)	1.2	-	(0.3)	0.0	-
	0.0	(0.0)	0.0	-			
Consolidated Total	167.3	168.4	(1.1)	(0.7)	12.4	(0.0)	(0.7)

* Upper lines: net sales; lower lines: sales to external customers

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Consumer Products Business Net Sales by Product Category

(Billions of yen)	Net sales			
	Jan. –Jun. 2019	Jan–Jun. 2018	Y-o-Y change	
			Amount	%
Oral Care	29.8	27.6	2.2	8.0
Beauty Care	11.0	10.1	0.8	8.4
Fabric Care	28.6	28.9	(0.2)	(1.0)
Living Care	9.0	7.8	1.2	15.8
Pharmaceutical	12.0	14.1	(2.0)	(14.7)
Other	19.6	22.1	(2.4)	(11.2)
Total	110.2	110.8	(0.5)	(0.5)

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Performance in Key Fields

Oral Care Field

- Unit prices up in the cavity prevention toothpaste category
- Ongoing sales growth in mid-range and high-end toothpastes and dental rinses

Beauty Care Field

- Double-digit sales growth in hand soaps and body soaps

Living Care Field

- Double-digit sales growth in household cleaners

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Performance in Key Fields

Fabric Care Field

- Sales of super-concentrated liquid detergents were steady
  Sales of regular liquid laundry detergents showed signs of recovery
- In fabric softeners, sales of deodorizing-type products were strong, while fragrance-type products struggled

Pharmaceutical Field

- Demand from overseas visitors fell more than expected

Issues

- ✓ **Further reinforce the oral care field**
- ✓ **Reinforce fabric softeners, especially fragrance-type products**
- ✓ **Nurture new category in the pharmaceutical field**

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Overseas Business Net Sales by Region

(Billions of yen)	Net sales			
	Jan.–Jun. 2019	Jan.–Jun. 2018	Y-o-Y change	
			Amount	%
Southeast Asia	34.5	35.4	(0.8)	(2.4)
Northeast Asia	16.9	16.7	0.1	0.8
Total	51.4	52.2	(0.7)	(1.4)

*A detergent ingredient manufacturing affiliate in Southeast Asia has been excluded from the scope of consolidation from the end of May 2018.

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Business Performance

- Continued steady growth in Southeast Asia
- Transition to profitable growth in China
- Ratio of sales from personal care products* up

  * The portion of total overseas sales accounted for by sales in the fields of oral care, beauty care, pharmaceutical products and foods with function claims

- Cost reduction in laundry detergents

Issue

✓ Maintain profitable growth in China

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Initiatives in the Second Half of 2019

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Changes in Home Products and OTC Drug Markets

Market Environment for Home Products (38 markets, SRI*)

Overall market trend for the 38 home product markets in which Lion participates
(Values are percentages of the results of the corresponding periods of the previous years)

	2016	2017	2018	Jan.–Jun. 2019
Sales value	104	99	102	103
Unit sales	102	98	100	101
Average unit price	102	102	102	102

Source: INTAGE Inc. SRI Survey (data for 2017 are for 37 such markets in which Lion operates)

Market Environment for OTC Drug Market (7 markets, SDI)

Overall market trends in the two drug markets in which Lion participates
(Values are percentages of the results of the corresponding periods of the previous years)

	2016	2017	2018	Jan.–Jun. 2019
Sales value	104	103	102	100
Unit sales	102	101	101	99
Average unit price	101	102	101	100

Source: INTAGE Inc. SDI Survey (2016-2018, 8 markets)
* Panel data changed from January 2019. Data for 2016 onward has been updated accordingly.

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Second Half Strategies

Continue Shift to High-Value-Added Products

1. Further growth in the domestic oral care field
2. Introduce and nurture dermatologic agents to reinforce pharmaceutical field
3. Create new value in fabric care field

Address the Consumption Tax Hike

4. Capture pre-tax hike demand surge and minimize recoil

Reinforce the Overseas Business

5. Accelerate growth in China

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1. Further growth in the domestic oral care field

Reinforce 3 Key Categories in the Second Half

Cavity prevention

Market size	Approx. ¥22 billion
CAGR	+2.8 %

Periodontal Disease Prevention

Market size	Approx. ¥70 billion
CAGR	+1.9 %

Bad breath care

Market size	Approx. ¥18 billion
CAGR	+6.8 %

Introduce high-value-added products in each category to stimulate the market

予防歯科から生まれた
クリニカ
Clinica



システマ
Systema



口臭科学から生まれた
NONIO



Market size: 2018 figure (total of toothpaste, toothbrush and mouthwash markets) (SRI data)
CAGR: 2015–2018 average annual growth rate (SRI data)

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2. Introduce and nurture dermatologic agents to reinforce pharmaceutical field

Establish third pillar in addition to antipyretic analgesics and eye drops

	Market size (2018)
Antipyretic analgesics 	Approx. ¥60 billion
Eye drops 	Approx. ¥80 billion
Dermatologic agents 	Approx. ¥100 billion

(Lion internal research)

Acquired the *FERZEA* and *Encron* dermatologic agent brands from Shiseido Pharmaceuticals

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Key target symptoms of dermatologic agents

Acne

PAIR





Dryness

FERZEA®





Itching

エンクロン
Encron



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3. Create new value in fabric care field

Total deodorizer laundry detergent,* created based on deodorizing science.

TOP SUPER NANOX for Odors



(July 31 launch)

*Total approach addresses deodorizing from biological, physical, sensory and chemical perspectives. Does not eliminate all odors.

New push-pump bottle
No measuring required!

TOP SUPER NANOX Push Bottle



(November 20 launch)

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3. Create new value in fabric care field

First Half



Reinforce deodorizing-type products

SOFLAN Premium Deodorizer

Second Half

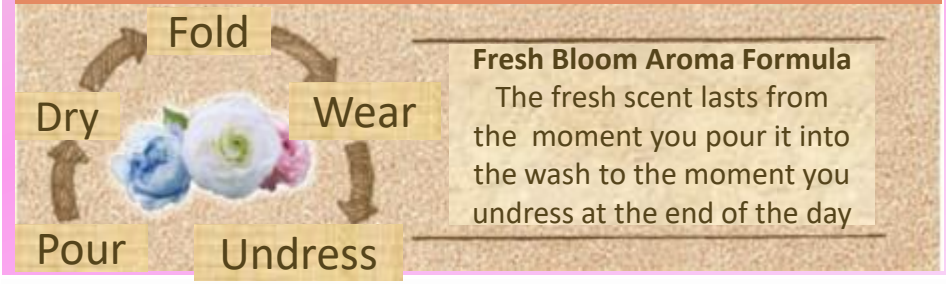
ソフラン Aroma Rich

Reinforce fragrance-type products

SOFLAN Aroma Rich

(Full renewal in August)

Fabric softeners that offer long-lasting, unchanging fragrances users love



Fresh Bloom Aroma Formula

The fresh scent lasts from the moment you pour it into the wash to the moment you undress at the end of the day



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4. Capture Pre-Tax Hike Demand Surge and Minimize Recoil

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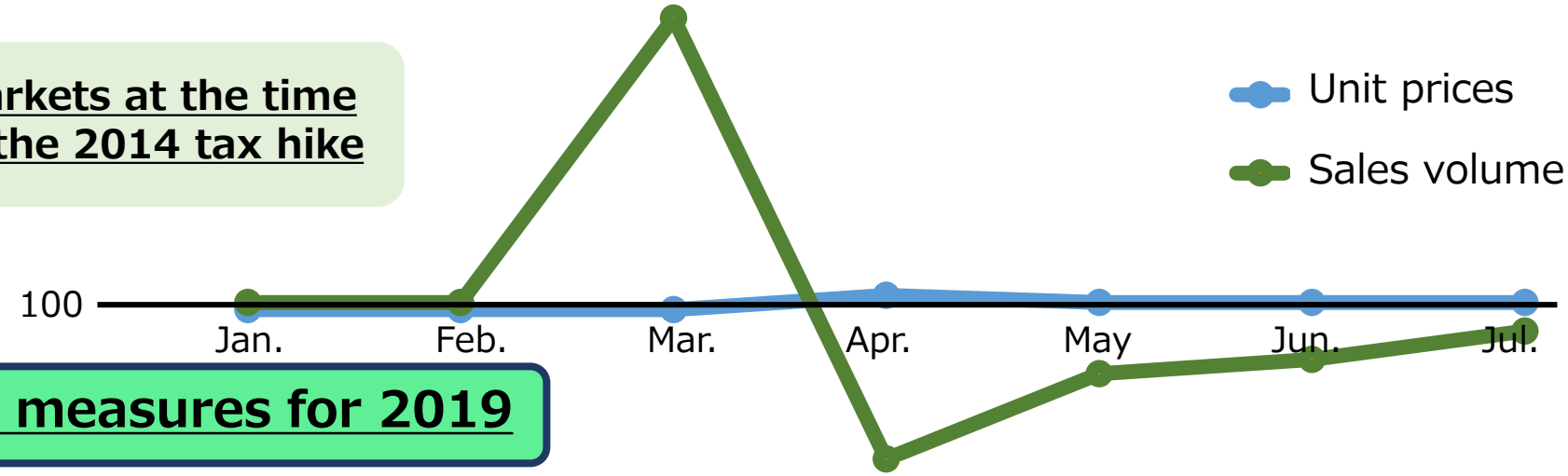
Markets at the time of the 2014 tax hike



Lion's measures for 2019

Before tax hike
Capture demand surge

- ✓ Bulk purchasing
- ✓ Encourage trial use



After tax hike
Minimize recoil

- ✓ Cultivate demand with new value proposals



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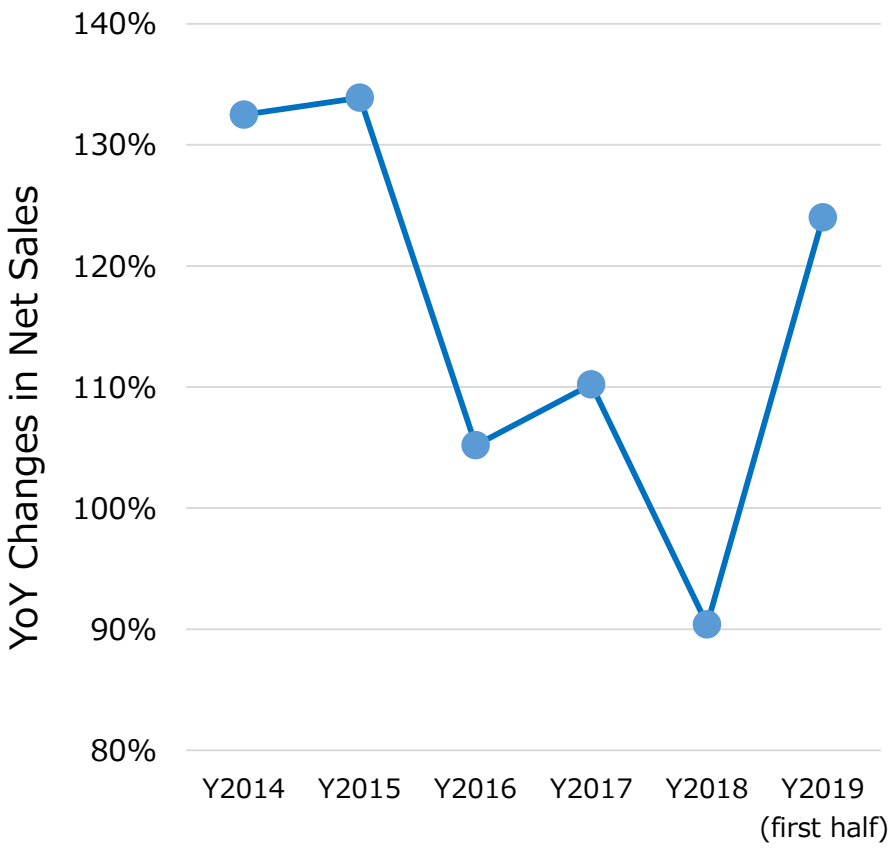
5. Accelerate Growth in China

YoY Changes in Qingdao Lion Net Sales



Strategy for Expansion in China

- ✓ Approach carried out through dedicated organization
- ✓ Enhance supply system



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5. Accelerate Growth in China

Vision

Spread **healthcare habits** from Japan to other Asian countries and regions





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5. Accelerate Growth in China

Challenge ① **Expand sales areas for oral care**

Challenge ② **Expand categories**

	Major cities	Regional areas
Oral Care 	Current business → ②	①
Laundry detergents, hand soaps, etc. 	②	
OTC Pharmaceuticals 	②	

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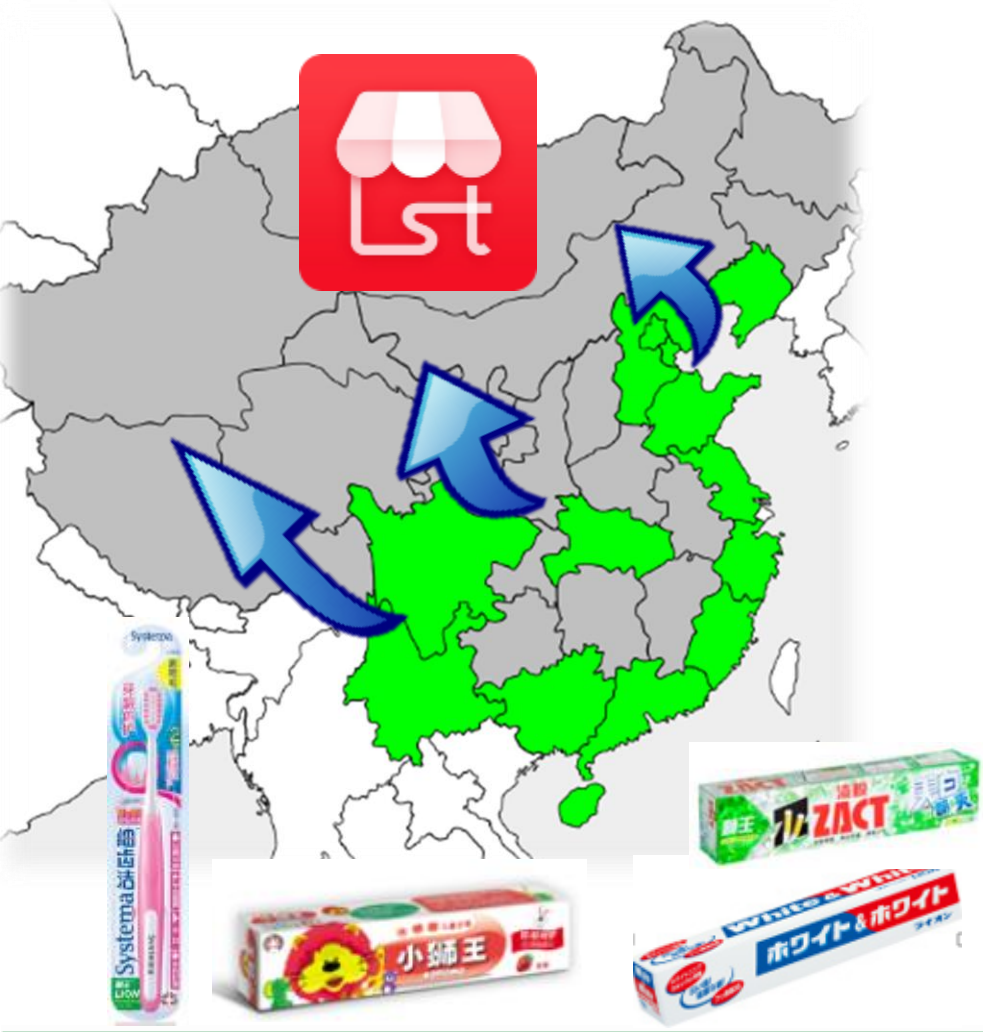
5. Accelerate Growth in China

Participating in Alibaba's LST (Starting from June 18, 2019)



Merged Business Functions To Enhance Business with Chinese EC Companies

Alibaba
(Tmall Global, LST)

New Dept.
Cross-Border Business Promotion Department

LION

LION 獅王
Qingdao Lion

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Focus: Business Creation Program Launched

NOIL

Ideation

Business ideas that disrupt conventional wisdom

+

Ownership

Personnel that create businesses and see them all the way through

Mentoring

External experts provide ongoing support



1st program currently under way, aimed at new value creation

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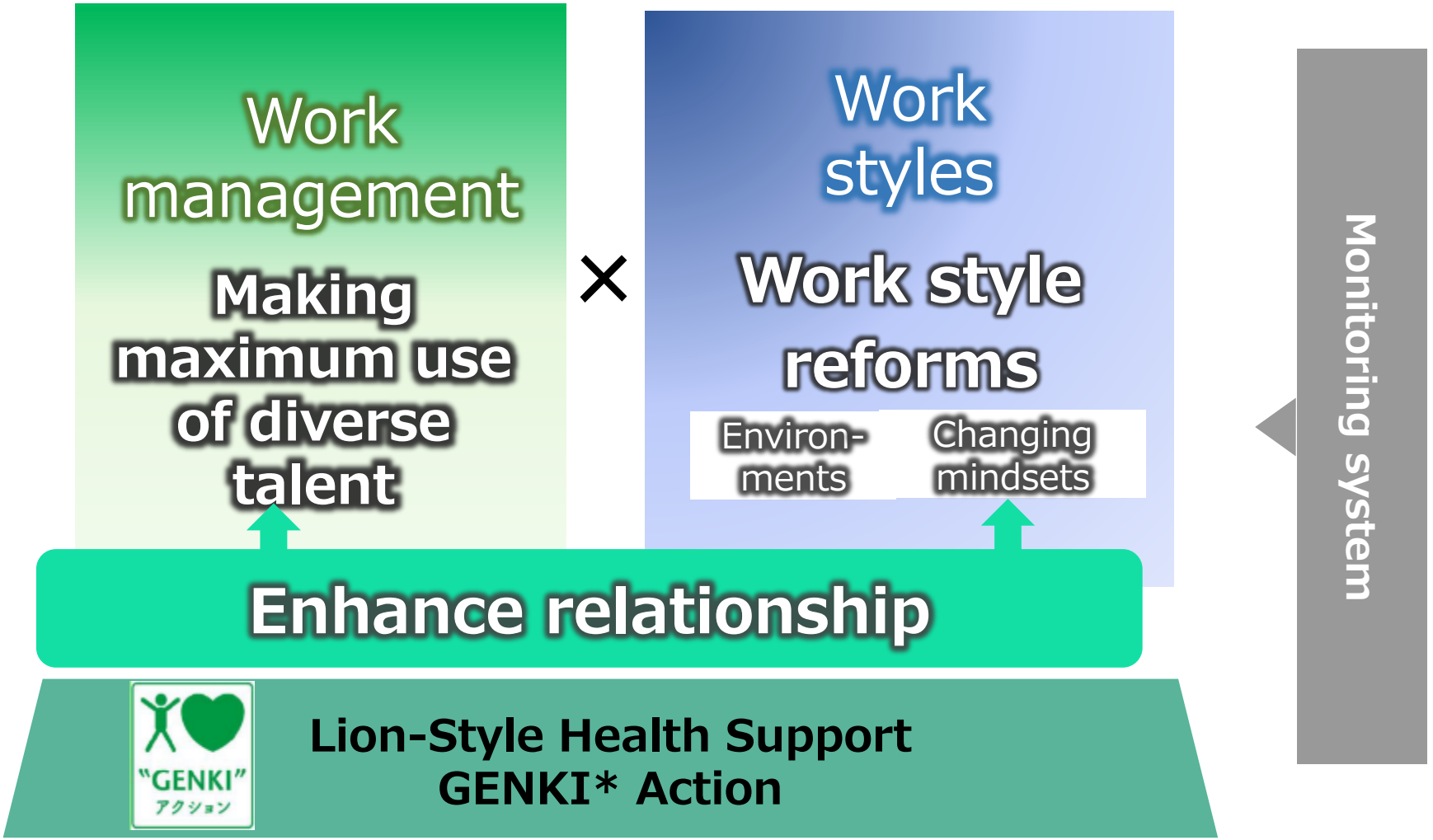
Focus: Lion-Style Reforms to Make Work More Rewarding



* "Health" in Japanese

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Focus: New Environmental Goals for 2050

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Lion Eco Challenge 2050

Healthy future for people and our planet



Challenges for a Decarbonized Society

Challenge 1: Lion will reduce CO_2 emissions to zero throughout business activities by 2050.

- By 2030, CO_2 emissions reduced by 30% in comparison to 2017 levels in absolute quantity

Challenge 2: Lion will reduce CO_2 emissions by half throughout the life cycle of products by 2050.

- By 2030, CO_2 emissions reduced by 30% in comparison to 2017 levels in absolute quantity

Challenges for a Resource-Circulating Society

Challenge 3: Lion will create an advanced resource-circulation for plastics by 2050.

- By 2030, promotion of the 3Rs (Reduce, Reuse, Recycle) and Renewable (use of sustainable resources), and use of doubles the amount of recycled plastics and bio-mass plastics in comparison to 2017 levels in absolute quantity

Challenge 4: Lion will optimize water usage for sustainability by 2050.

- By 2030, 30% reduction in water usage throughout the life cycle of its products in comparison to 2017 levels per unit of total revenue

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2019 Consolidated Financial Forecast

(Billions of yen)	2019	2018	Y-o-Y change	
			Amount	%
Net sales	360.0	349.4	10.5	3.0
Core operating income % of net sales	31.5 8.8	28.3 8.1	3.1	11.0
Operating profit % of net sales	31.0 8.6	34.1 9.8	(3.1)	(9.3)
Profit for the period attributable to owners of parent	21.0	25.6	(4.6)	(18.0)
EPS (Yen)	72.25	88.11	(15.86)	(18.0)

Note: No change to financial forecast

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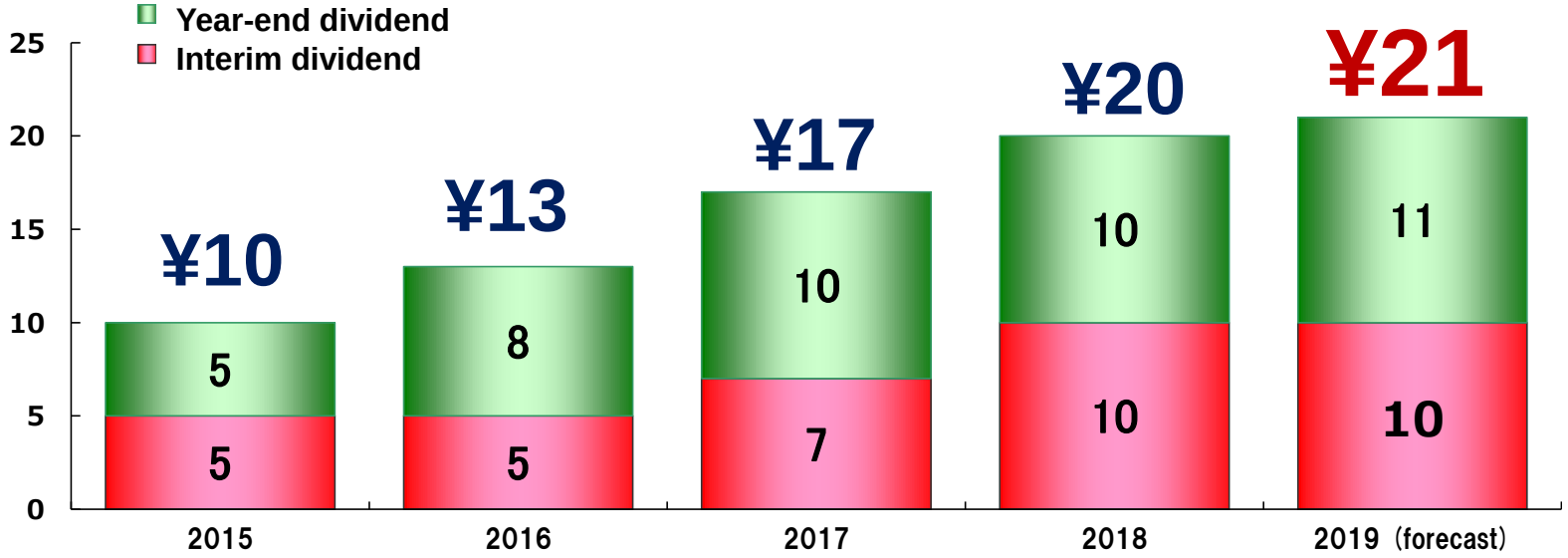
Shareholder Returns

Increased dividends for four consecutive years

Per-share dividend of ¥21 per share, up ¥1 YoY, planned for 2019



	2015	2016	2017	2018	2019 (forecast)
Payout ratio	25.4%	23.6%	24.9%	22.7%	29.1%

Basic dividend policy:
Return profits to shareholders on a continuous and stable basis
(Consolidated payout ratio target: 30%)

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Reference Materials

Consolidated Statement of Income

(Billions of yen)	Jan.–Jun. 2019	Jan.–Jun. 2018	Y-o-Y change	
			Amount	%
Net sales	167.3	168.4	(1.1)	(0.7)
Cost of sales	84.8	85.8	(0.9)	(1.2)
Gross profit	82.5	82.6	(0.1)	(0.2)
Selling, general and administrative expenses	70.0	70.1	(0.0)	(0.1)
Core operating income	12.4	12.5	(0.0)	(0.7)
Other income	1.0	6.0	(5.0)	(83.3)
Other expenses	0.5	0.7	(0.1)	(21.3)
Operating profit	12.8	17.8	(4.9)	(27.9)
Finance income	0.4	0.4	0.0	4.5
Finance costs	0.1	0.0	0.0	24.3
Share of profit of investments accounted for using the equity method	0.4	0.3	0.0	27.1
Profit before tax	13.6	18.5	(4.8)	(26.4)
Income taxes	3.8	1.5	2.2	141.3
Profit for the period	9.8	16.9	(7.1)	(42.1)
Profit for the period attributable to non-controlling interest	1.1	3.0	(1.8)	(62.4)
Profit for the period attributable to owners of the parent	8.6	13.9	(5.2)	(37.6)

Selling, general and administrative expenses

(Billions of yen)	Jan.–Jun. 2019		Jan.–Jun. 2018		Y-o-Y change	
	Amount	% of sales (%)	Amount	% of sales (%)	Amount	%
Selling, general and administrative expenses	70.0	41.9	70.1	41.6	(0.0)	(0.1)
Sales commissions	4.5	2.7	4.4	2.6	0.0	1.8
Promotional expenses	12.8	7.7	12.8	7.6	0.0	0.3
Advertising expenses	12.9	7.7	13.8	8.2	(0.9)	(6.7)
Transportation and warehousing expenses	9.5	5.7	9.2	5.5	0.3	3.9
R&D expenses	5.3	3.2	5.2	3.1	0.1	2.5
Other expenses	24.8	14.8	24.5	14.6	0.2	1.0

Consolidated Statement of Financial Position

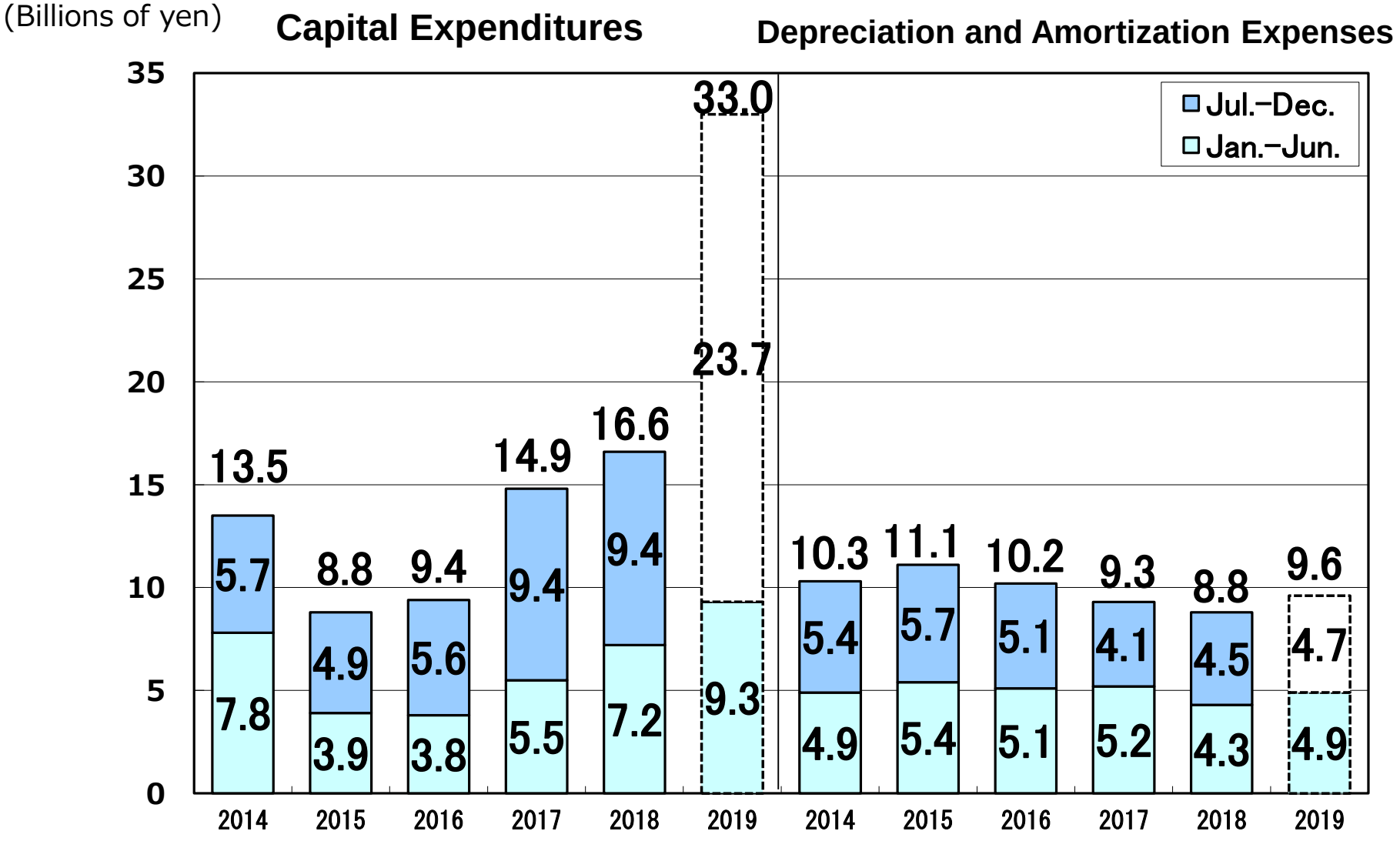
(Billions of yen)		Jun. 30, 2019	Dec. 31, 2018	Change
Current assets		212.3	215.9	(3.6)
	Cash and cash equivalents	99.6	104.9	(5.3)
	Trade and other receivables	62.1	64.6	(2.5)
	Inventories	44.6	42.0	2.5
Non-current assets		146.6	139.4	7.1
	Property, plant and equipment	83.7	81.5	2.2
	Intangible assets	11.1	10.1	0.9
	Right-of-use assets	6.1	–	6.1
	Other financial assets	24.2	25.0	(0.8)
Total assets		358.9	355.3	3.5

(Billions of yen)		Jun. 30, 2019	Dec. 31, 2018	Change
Current liabilities		126.2	129.7	(3.4)
	Trade and other payables	112.4	116.9	(4.5)
	Lease liabilities	1.4	-	1.4
	Other current liabilities	4.9	7.0	(2.1)
Non-current liabilities		24.1	21.3	2.8
	Retirement benefit liabilities	11.8	10.9	0.9
	Lease liabilities	5.7	-	5.7
Equity		208.4	204.2	4.2
	Share capital	34.4	34.4	-
	Capital surplus	34.7	34.7	0.0
	Treasury stock	(4.7)	(4.7)	0.0
	Other components of equity	9.8	10.9	(1.0)
	Retained earnings	122.7	115.8	6.9
Total liabilities and equity		358.9	355.3	3.5

Consolidated Statement of Cash Flows

(Billions of yen)	Jan.–Jun. 2019	Jan.–Jun. 2018	Change
Cash flows from operating activities	11.6	7.5	4.1
Cash flows from investing activities	(10.2)	(0.9)	(9.2)
Cash flows from financing activities	(6.6)	(5.4)	(1.1)
Effect of exchange rate changes on cash and cash equivalents	(0.1)	(0.5)	0.3
Net increase (decrease) in cash and cash equivalents	(5.3)	0.6	(5.9)
Cash and cash equivalents at the beginning of the period	104.9	91.4	13.5
Cash and cash equivalents at the end of the period	99.6	92.0	7.6

Capital Expenditures and Depreciation and Amortization Expenses



* Capital expenditures and depreciation expenses both include intangible assets.

2019 Consolidated Financial Forecast

Revised forecasts of net sales by segment

(Billions of yen)	Assumptions at start of year (2/13/2019)	Current assumptions (8/6/2019)	Y-o-Y change
Consumer Products	220.0	223.5	3.5
Industrial Products	34.5	34.0	(0.5)
Overseas	101.0	98.0	(3.0)
Other	4.5	4.5	0
Consolidated Total	360.0	360.0	0

Fiscal 2019 Forecast of Change Factors Affecting Core Operating Income

◇Impact on income

(Billions of yen)	Assumptions at start of year (2/13/2019)	Current assumptions (8/6/2019)
Sales, product mix and others	3.1	1.6
Total cost reduction (manufacturing and logistics costs)	2.0	1.5
Raw material price fluctuations	0	1.6
Competition-related expenses	(1.0)	(0.7)
Other expenses	(1.0)	(0.9)
Total	3.1	3.1

Changes in Home Products Market

1）Market Environment for Home Products (38 markets, SRI*)

Overall market trend for the 38 home product markets in which Lion participates
(Values are percentages of the results of the corresponding periods of the previous years)

	2014	2015	2016	2017	2018	Jan.-Jun. 2019
Sales value	102	103	104	99	102	103
Unit sales	100	100	102	98	100	101
Average unit price	102	102	102	102	102	102

Source: INTAGE Inc. SRI Survey (data for 2014 are for 40 such markets in which Lion operates; data for 2015 are for 39; data for 2016 are for 38; data for 2017 are for 37; data for 2018 onward are for 38)

2）Market Environment for Home Products (15 markets, SCI**)

Overall market trend for the 15 home product markets in which Lion participates
(Values are percentages of the results of the corresponding periods of the previous years)

	2016	2017	2018	Jan.-Jun. 2019
Sales value	105	103	102	104
Unit sales	101	101	100	101
Average unit price	104	102	103	103

Source: INTAGE Inc. SCI survey

* The SRI survey uses point-of-sales data from around 3,000 stores nationwide for its estimates.

** The SCI survey monitors around 50,000 shoppers nationwide for its sales data.

3）Market Environment for OTC Drug Market (7 markets, SDI)

Overall market trends in the eight drug markets in which Lion participates
(Values are percentages of the results of the corresponding periods of the previous years)

	2016	2017	2018	Jan.–Jun. 2019
Sales value	104	103	102	100
Unit sales	102	101	101	99
Average unit price	101	102	101	100

Source: INTAGE Inc. SDI Survey (2016–2018, 8 markets)

* Panel data changed from January 2019. Data for 2016 onward has been updated accordingly.

4）Market Environment for OTC Drug Market (2 markets, SCI)

Overall market trends in the two drug markets in which Lion participates
(Values are percentages of the results of the corresponding periods of the previous years)

	2016	2017	2018	Jan.–Jun. 2019
Sales value	104	103	104	103
Unit sales	102	100	102	102
Average unit price	102	103	102	102

Source: INTAGE Inc. SCI survey

Assumed Raw Material Prices and Exchange Rates

Raw material prices

	Dubai Crude	Domestic Naphtha	Crude Palm Oil
2019 second half forecasts	$62/BBL	JPY48,000/KL	2,200RM/ton

Exchange Rates

	U.S. Dollar	Thai Baht	Korean Won
2019 second half forecasts	JPY110.0	JPY3.4	JPY0.100

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LION

The forecasts and projected operating results contained in this report are based on information available at the time of preparation, and thus involve inherent risks and uncertainties. Accordingly, readers are cautioned that actual results may differ materially from those projected as a result of a variety of factors.

* The Lion Group applies the International Financial Reporting Standards (IFRS) .
* Monetary amounts herein are truncated after the last digit shown.