Financial Results for the First Nine Months of 2020

Lion Corporation

November 5, 2020

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Consolidated Performance Overview

Sales were level year on year, and profit rose

✓ **Sales grew, mainly in hygiene-related products, due to the spread of the novel coronavirus.**

- Sales of hand soap, hand sanitizers and other related products (dishwashing detergent, food preparation products, etc.) grew.
- Overseas sales fell year on year, due in part to restrictions on activity in Southeast Asia.

✓ **Core operating income and the core operating income ratio increased due to product mix changes and a reduction in competition-related expenses.**

✓ **Operating profit and profit for the period attributable to owners of parent rose substantially year on year due to a gain on transfer of non-current assets (land Lion's head office occupies).**

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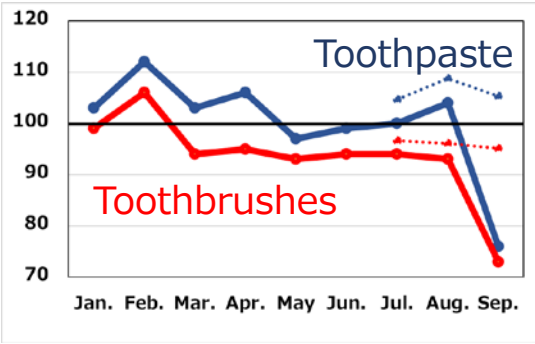
Market Trends

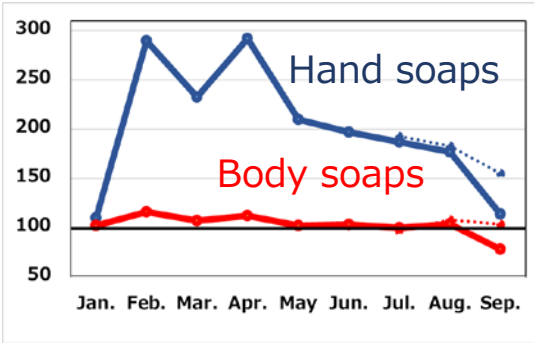
Source: INTAGE Inc. SRI, SDI survey

Y-o-Y comparison of consumer products markets in Japan by in-store sales value (%)

Oral Care



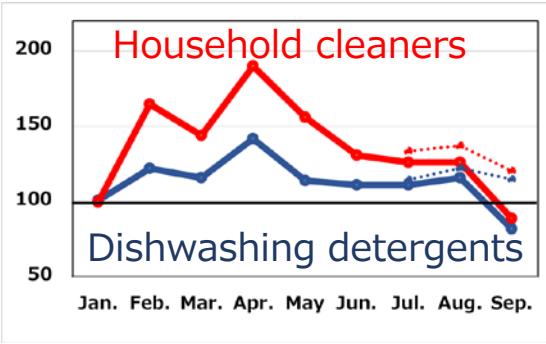
Beauty Care



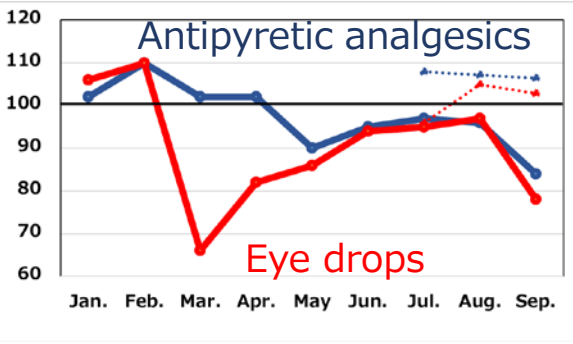
Fabric Care



Living Care



Pharmaceutical



■ The Y-o-Y dip in markets in September is a result of the demand surge ahead of the consumption tax hike in October 2019

* Reference: Sales in home products markets were up 32% Y-o-Y in September 2019.

* Y-o-Y comparison with 2018 is shown with dotted lines for July to September.

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Market Trends

Domestic Consumer Product Market Trends (Jan.–Sep.)

Source: INTAGE Inc. SRI, SDI survey

Aggregate of 38 Home Products Markets	**Driven by hygiene-related products, both sales volume and unit prices increased, and sales value grew 11% year on year**
Oral Care	✓ Toothpaste unit prices continued to rise, reflecting a shift to higher-value-added products ✓ Toothbrush unit prices rose, but sales volume continued to decrease (replacement cycles lengthened, and sales of travel sets were stagnant due to efforts to stay home)
Beauty Care	✓ Sales of hygiene-related products, including hand soaps, expanded
Fabric Care	✓ Sales of laundry detergents and fabric softeners have recently been recovering ✓ Increases in bleaches and antibacterial sprays due to increased hygiene awareness
Living Care	✓ Growth in dishwashing detergents and food preparation products due to an increase in eating at home ✓ The household cleaner market expanded due to increased hygiene awareness

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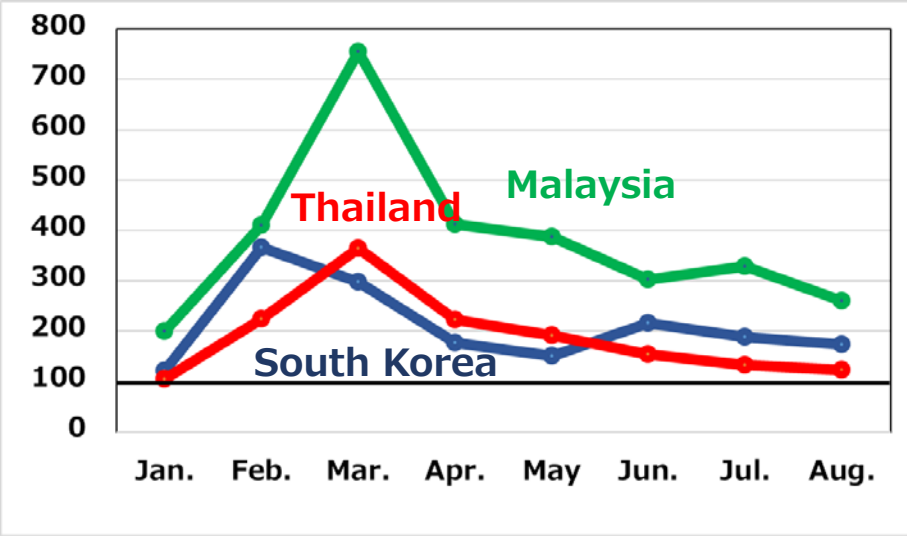
Market Trends (Overseas)

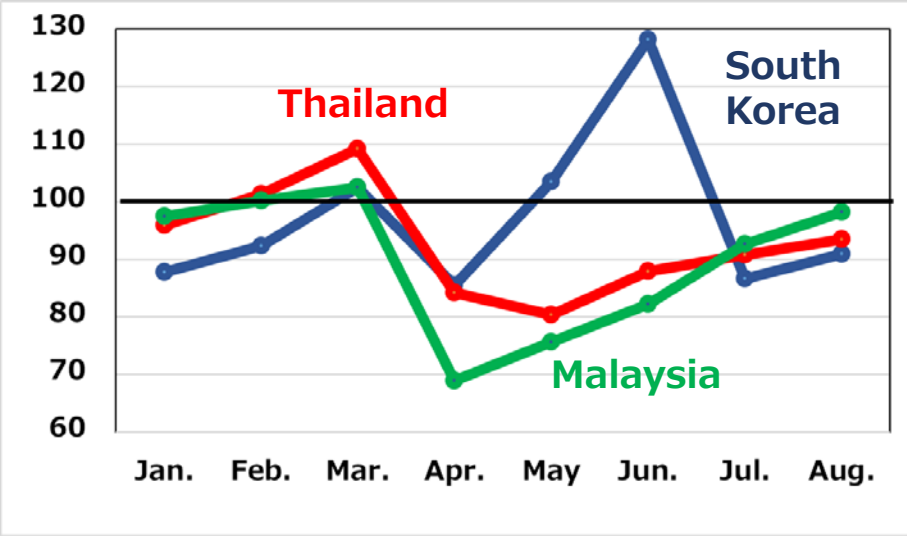
Y-o-Y comparison of overseas markets (%)

Source: Nielsen

Hand Soaps



Laundry Detergents



Jan.–Aug. Y-o-Y Sales Value Comparison by Country and Category

	Thailand	Malaysia	South Korea
Hand soaps	186%	380%	217%
Laundry detergents	93%	90%	97%

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Financial Results for the Nine Months Ended September 30, 2020

(Billions of yen)	Jan.–Sep. 2020	Jan.–Sep. 2019	Y-o-Y change	
			Amount	%
Net sales	262.0	261.9	0.0	0.0 0.9*
Core operating income % of net sales	29.8 11.4	23.5 9.0	6.2	26.7
Operating profit % of net sales	38.2 14.6	23.8 9.1	14.4	60.5
Profit for the period attributable to owners of parent	27.2	16.9	10.2	60.7
EPS（Yen）	93.69	58.31	35.38	60.7

Note: 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.

* Y-o-Y change at constant currency excluding exchange rate fluctuations.

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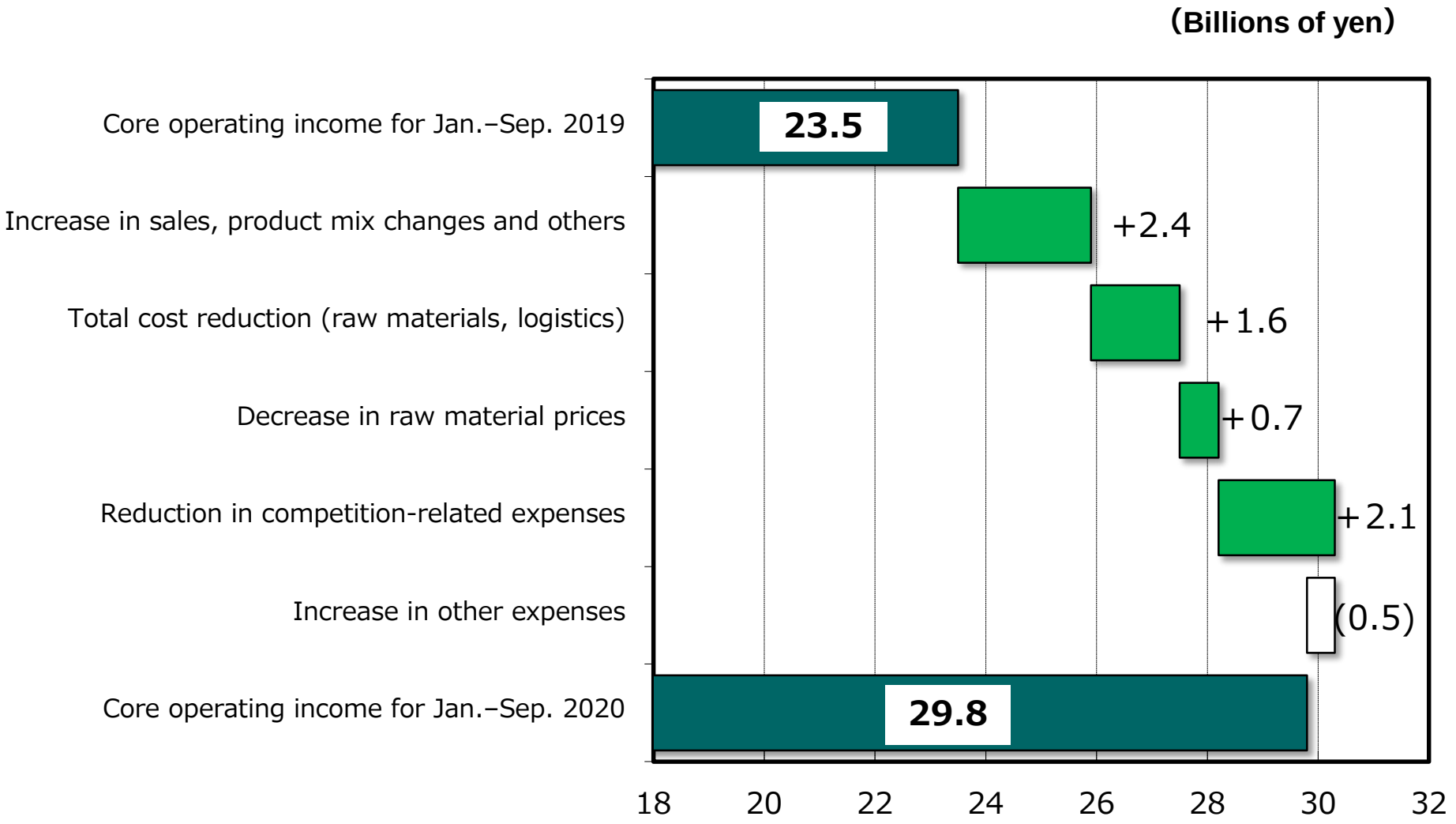
Year-on-Year Changes in Core Operating Income



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Results by Business Segment

(Billions of yen)

	Net sales*				Segment profit (Core operating income)		
	Jan.–Sep. 2020	Jan.–Sep. 2019	Y-o-Y change		Jan.–Sep. 2020	Y-o-Y change	
			Amount	%		Amount	%
Consumer Products	179.9	176.0	3.9	2.2	22.0	6.0	37.8
	168.3	164.5	3.7	2.3	12.2%		
Industrial Products	40.2	40.9	(0.7)	(1.8)	1.4	0.2	21.6
	22.8	24.3	(1.5)	(6.3)	3.6%		
Overseas	76.7	77.5	(0.7)	(1.0)	5.5	(0.0)	(1.6)
	68.6	70.5	(1.8)	(2.6)	7.2%		
Other	24.4	24.8	(0.4)	(1.8)	1.4	0.5	57.0
	2.1	2.4	(0.2)	(12.0)	6.1%		
Adjustment	(59.2)	(57.4)	(1.8)	—	(0.6)	(0.4)	—
	(0.0)	0.0	(0.0)	—	—		
Consolidated Total	262.0	261.9	0.0	0.0	29.8	6.2	26.7
					11.4%		

* 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. –Sep. 2020	Jan–Sep. 2019	Y-o-Y change	
			Amount	%
Oral Care	47.5	47.5	(0.0)	(0.0)
Beauty Care	24.4	17.2	7.2	41.9
Fabric Care	43.1	46.3	(3.1)	(6.9)
Living Care	17.3	14.5	2.8	19.3
Pharmaceutical	17.8	19.7	(1.8)	(9.6)
Other	29.6	30.6	(1.0)	(3.3)
Total	179.9	176.0	3.9	2.2

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Overseas Business Net Sales by Region

(Billions of yen)	Net sales			
	Jan.–Sep. 2020	Jan.–Sep. 2019	Y-o-Y change	
			Amount	%
Southeast Asia	49.7	52.4	(2.7)	(5.3)
Northeast Asia	27.0	25.0	1.9	8.0
Total	76.7	77.5	(0.7)	(1.0)

*Y-o-Y change at constant currency excluding exchange rate fluctuations:
Southeast Asia: (2.5%); Northeast Asia: 11.9%; Total: 2.2%

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Third Quarter (Jul.–Sep.) Summary

(Billions of yen)	Jul.–Sep. 2020	Jul.–Sep. 2019	Y-o-Y change	
			Amount	%
Net sales	92.9	94.6	(1.6)	(1.8) 3.0*
Core operating income % of net sales	13.4 14.5	11.1 11.8	2.3	21.3

* Y-o-Y change from Jul.–Sep. 2018

- Due in part to recoil from the pre-tax hike surge in demand for consumer products in 2019 (approx. ¥5 billion), overall net sales decreased year on year. However, partly because hygiene-related products made up a greater portion of the sales mix, profit increased.

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2020 Consolidated Financial Forecast

Revised Performance and Dividend Forecasts

(Billions of yen)	2020 (forecast) (published 11/5)	2019 (actual)	Y-o-Y change		Difference from previous forecast (published 7/31)
			Amount	%	
Net sales	355.0	347.5	7.4	2.2	-
Core operating income % of net sales	33.0 9.3	30.0 8.6	2.9	9.8	2.5
Operating profit % of net sales	41.5 11.7	29.8 8.6	11.6	39.1	2.0
Profit for the period attributable to owners of the parent	27.0	20.5	6.4	31.3	-
EPS (Yen)	92.88	70.72	22.16	31.3	-

* The forecast year-end per-share dividend was increased **¥1** to ¥12, for an annual dividend of **¥23** per share.

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Reasons for Revising the Performance Forecasts

✓ **Forecasts were revised because Lion was able to somewhat better forecast the impact of the novel coronavirus pandemic, which was viewed as an operating environment risk**

- Conditions in some fields are still difficult, but demand for hygiene-related products remains strong, and gross profit has increased
- Despite additional marketing expenses in line with expectations in oral care and other key fields, mainly in the fourth quarter (October to December), promotional expenses are expected to be lower than previously assumed
- The effects of cost-reduction measures are expected to be greater than previously forecast

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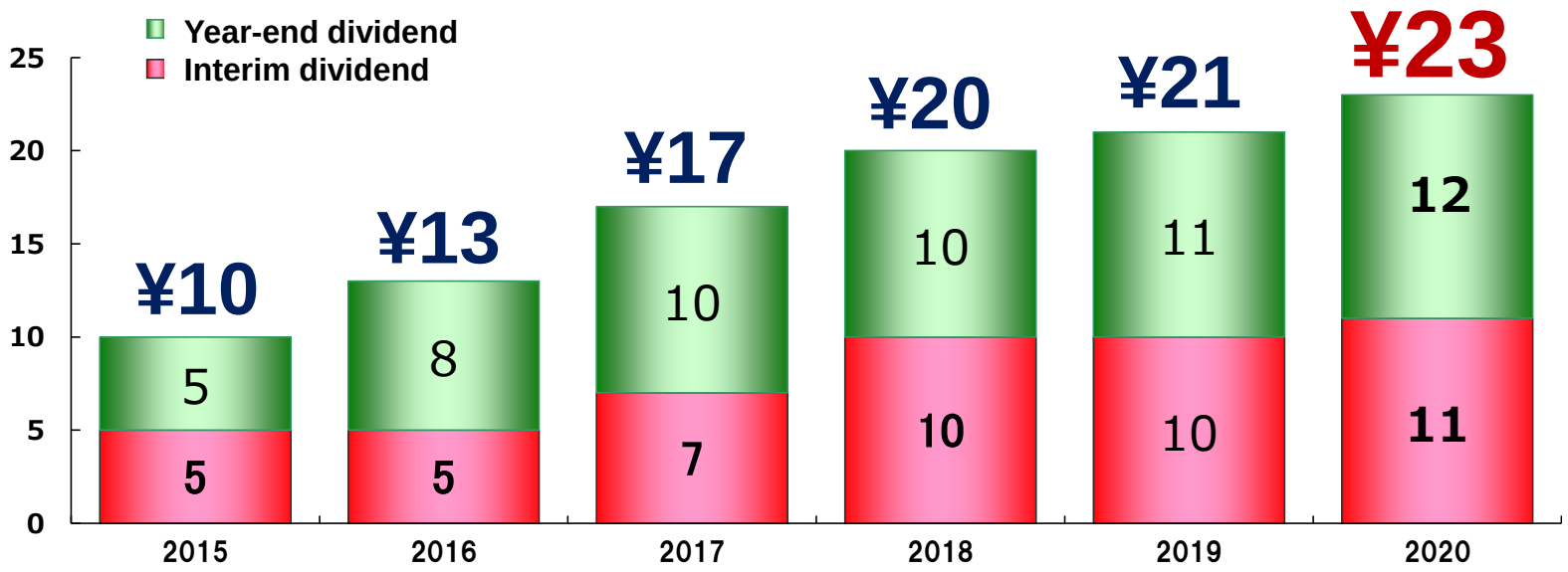
Shareholder Returns

Increased dividends for five consecutive years

Per-share annual dividend of ¥23 per share, up ¥2 YoY, planned for 2020



	2015	2016	2017	2018	2019	2020
Payout ratio	25.4%	23.6%	24.9%	22.7%	29.7%	24.8%

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.–Sep. 2020	Jan.–Sep. 2019	Y-o-Y change	
			Amount	%
Net sales	262.0	261.9	0.0	0.0
Cost of sales	128.4	132.4	(4.0)	(3.0)
Gross profit	133.6	129.5	4.1	3.2
Selling, general and administrative expenses	103.7	105.9	(2.1)	(2.1)
Core operating income	29.8	23.5	6.2	26.7
Other income	11.9	1.1	10.8	964.8
Other expenses	3.5	0.8	2.6	308.0
Operating profit	38.2	23.8	14.4	60.5
Finance income	0.5	0.5	0.0	5.6
Finance costs	0.1	0.1	(0.0)	(26.9)
Share of profit of investments accounted for using the equity method	1.0	0.6	0.3	53.7
Profit before tax	39.7	24.8	14.8	59.7
Income taxes	10.9	6.1	4.8	78.2
Profit for the period	28.7	18.6	10.0	53.6
Profit for the period attributable to non-controlling interest	1.4	1.7	(0.2)	(15.2)
Profit for the period attributable to owners of the parent	27.2	16.9	10.2	60.7

Selling, General and Administrative Expenses

(Billions of yen)		Jan.–Sep. 2020		Jan.–Sep. 2019		Y-o-Y change	
		Amount	% of sales	Amount	% of sales	Amount	%
Selling, general and administrative expenses		103.7	39.6	105.9	40.4	(2.1)	(2.1)
	Sales commissions	6.8	2.6	6.7	2.6	0.0	1.0
	Promotional expenses	19.4	7.4	19.4	7.4	(0.0)	(0.0)
	Advertising expenses	17.5	6.7	19.6	7.5	(2.1)	(10.9)
	Transportation and warehousing expenses	13.9	5.3	14.5	5.6	(0.6)	(4.3)
	R&D expenses	7.6	2.9	8.0	3.1	(0.4)	(5.3)
	Other expenses	38.3	14.6	37.3	14.3	0.9	2.5

Consolidated Statement of Financial Position

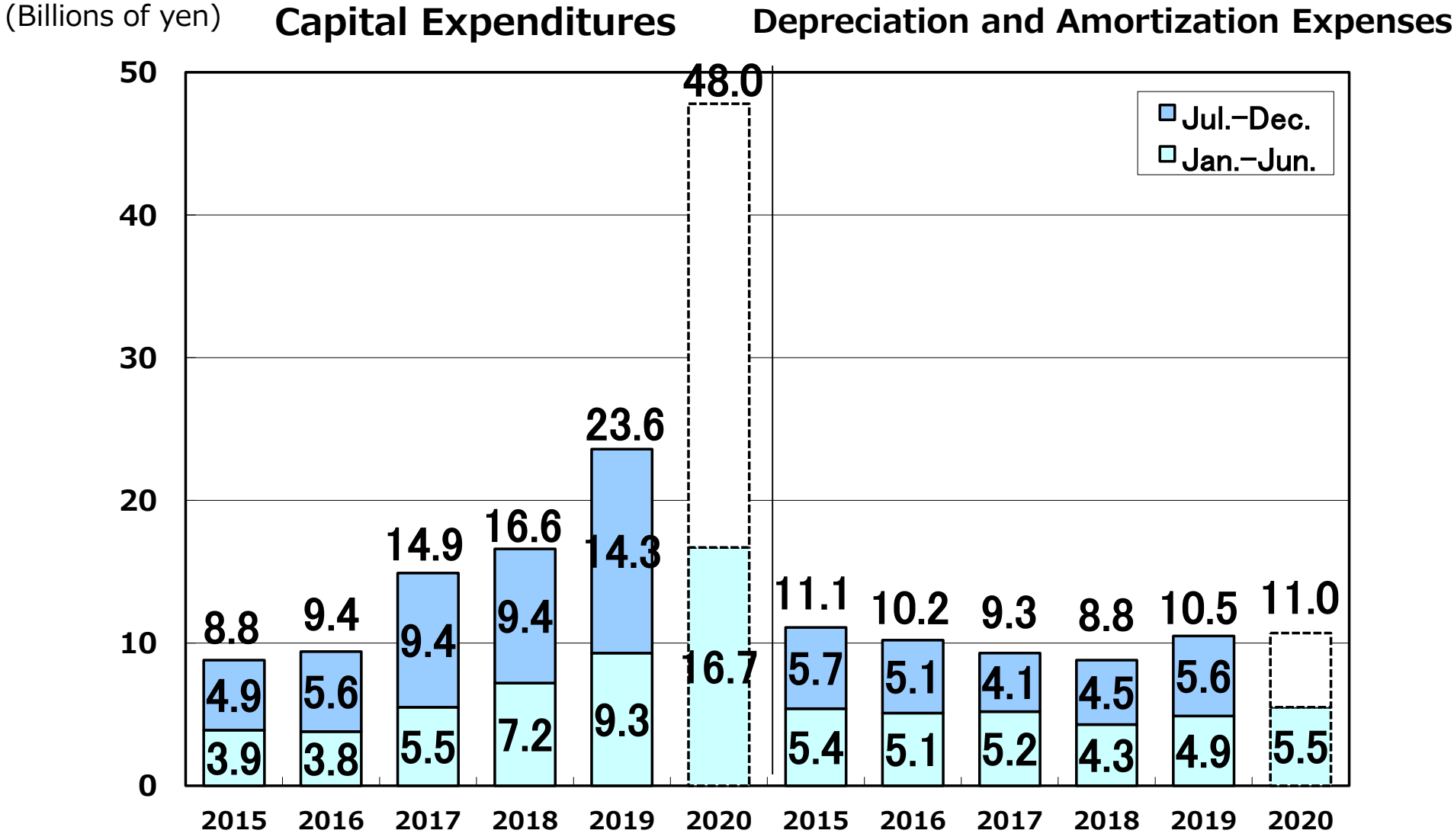
(Billions of yen)		Sep. 30, 2020	Dec. 31, 2019	Change
Current assets		224.1	222.4	1.6
	Cash and cash equivalents	105.4	110.4	(4.9)
	Trade and other receivables	58.1	61.7	(3.6)
	Inventories	49.1	43.5	5.5
Non-current assets		180.3	158.2	22.1
	Property, plant and equipment	108.2	90.9	17.3
	Intangible assets	16.0	13.4	2.5
	Right-of-use assets	5.4	5.9	(0.4)
	Other financial assets	24.9	25.5	(0.5)
Total assets		404.4	380.7	23.7

(Billions of yen)		Sep. 30, 2020	Dec. 31, 2019	Change
Current liabilities		**139.9**	**135.7**	**4.2**
	Trade and other payables	**116.3**	**116.2**	**0.0**
	Lease liabilities	**1.4**	**1.4**	**(0.0)**
	Other current liabilities	**9.1**	**7.6**	**1.4**
Non-current liabilities		**25.6**	**23.7**	**1.8**
	Retirement benefit liabilities	**14.4**	**12.0**	**2.3**
	Lease liabilities	**5.3**	**5.5**	**(0.1)**
Equity		**238.8**	**221.2**	**17.6**
	Share capital	**34.4**	**34.4**	**-**
	Capital surplus	**34.9**	**34.7**	**0.1**
	Treasury stock	**(4.7)**	**(4.7)**	**(0.0)**
	Other components of equity	**8.9**	**11.3**	**(2.3)**
	Retained earnings	**152.9**	**132.6**	**20.2**
Total liabilities and equity		**404.4**	**380.7**	**23.7**

Consolidated Statement of Cash Flows

(Billions of yen)	Jan.–Sep. 2020	Jan.–Sep. 2019	Change
Cash flows from operating activities	18.1	18.1	(0.0)
Cash flows from investing activities	(13.6)	(15.8)	2.2
Cash flows from financing activities	(8.5)	(10.0)	1.5
Effect of exchange rate changes on cash and cash equivalents	(0.8)	(0.1)	(0.7)
Net increase (decrease) in cash and cash equivalents	(4.9)	(7.9)	3.0
Cash and cash equivalents at the beginning of the period	110.4	104.9	5.4
Cash and cash equivalents at the end of the period	105.4	97.0	8.4

Capital Expenditures and Depreciation and Amortization Expenses



* Capital expenditures and depreciation expenses both include intangible assets.

Fiscal 2020 Forecast of Change Factors Affecting Core Operating Income

◇Impact on income

(Billions of yen)	Assumptions at start of year (2/13/2020)	Previously revised assumptions (8/5/2020)	Current assumptions (11/5/2020)
Sales, product mix and others	2.0	3.0	2.7
Total cost reduction (manufacturing and logistics costs)	1.5	1.0	1.8
Raw material price fluctuations	(0.5)	1.0	1.0
Competition-related expenses	(1.0)	(2.5)	(1.5)
Other expenses	(1.5)	(2.0)	(1.0)
Total	0.5	0.5	3.0

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)

	2015	2016	2017	2018	2019	Jan.–Sep. 2020	
						Change from Jan.–Sep. 2019	Change from Jan.–Sep. 2018
Sales value	103	104	99	102	102	111	117
Unit sales	100	102	98	100	100	104	108
Average unit price	102	102	102	102	102	106	109

Source: INTAGE Inc. SRI Survey (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	2019	Jan.-Sep. 2020
Sales value	105	103	102	105	103
Unit sales	101	101	100	102	97
Average unit price	104	102	103	104	106

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 seven drug markets in which Lion participates
(Values are percentages of the results of the corresponding periods of the previous years)

	2016	2017	2018	2019	Jan.–Sep. 2020	
					Change from Jan.–Sep. 2019	Change from Jan.–Sep. 2018
Sales value	104	103	102	100	92	93
Unit sales	102	101	101	99	88	88
Average unit price	101	102	101	101	104	105

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	2019	Jan.–Sep. 2020
Sales value	104	103	104	104	99
Unit sales	102	100	102	102	96
Average unit price	102	103	102	102	103

Source: INTAGE Inc. SCI survey

Assumed Raw Material Prices and Exchange Rates

Raw material prices

	Dubai Crude	Domestic Naphtha	Crude Palm Oil
2020 second half forecasts	$45/BBL	JPY32,000/KL	2,800RM/ton

Exchange Rates

	U.S. Dollar	Thai Baht
2020 second half forecasts	JPY108	JPY3.5

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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.