Financial Results for the First Nine Months of 2022

Lion Corporation

November 4, 2022

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- Fiscal 2022 Financial Forecast

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Consolidated Performance Overview

Sales rose but profit fell Y-o-Y in the first nine months of the year

Net sales (up Y-o-Y)

- In the Consumer Products Business, sales increased, as sales growth of hand soaps, toothbrushes, antipyretic analgesics and other products outpaced the market
- Sales in the Overseas Business increased, reflecting strong sales in Malaysia in Southeast Asia and South Korea in Northeast Asia
- Sales in the Industrial Products Business increased, driven by demand growth in the chemicals field

Core operating income (down Y-o-Y)

- The impact of rising raw material costs expanded, leading to a year-on-year decrease in profit, despite total cost reductions and price increases

Operating profit and profit for the period attributable to owners of the parent (down Y-o-Y)

- Profit fell year on year mainly due to decreased core operating income

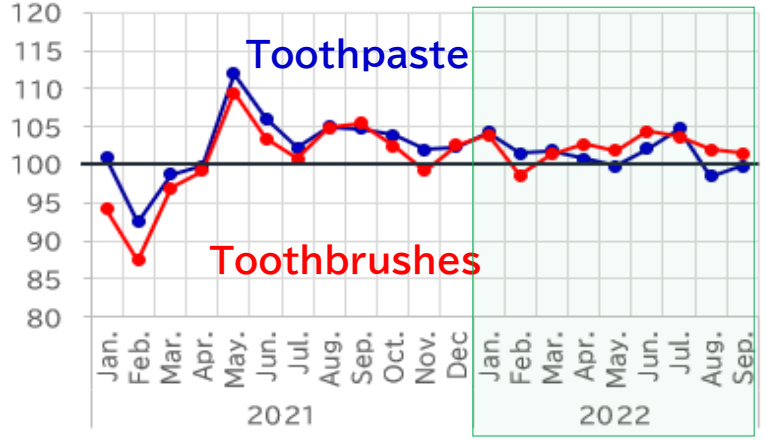
Market Trends—Major Product Categories in Japan

From January to September, markets were steady overall

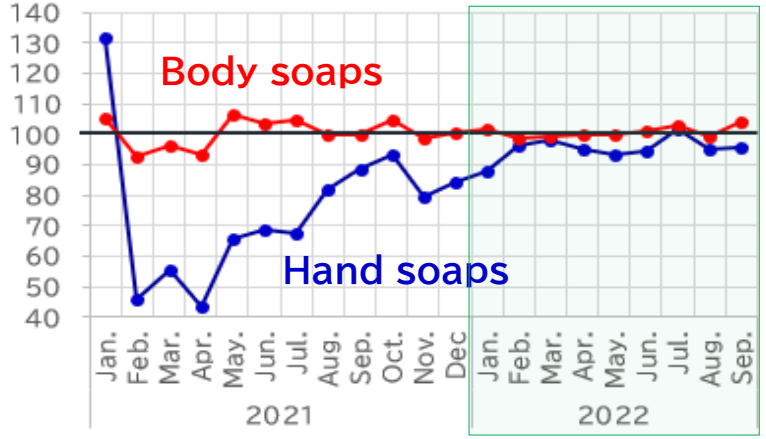
Y-o-Y comparison of consumer products markets in Japan by in-store sales value (%)

Source: INTAGE Inc. SRI+

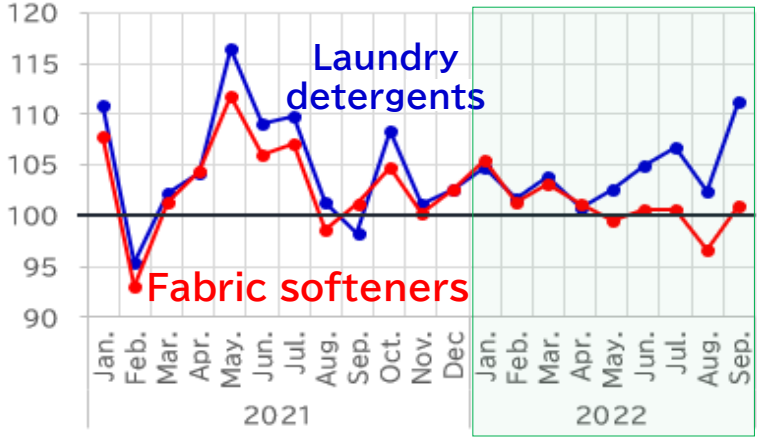
Oral Care



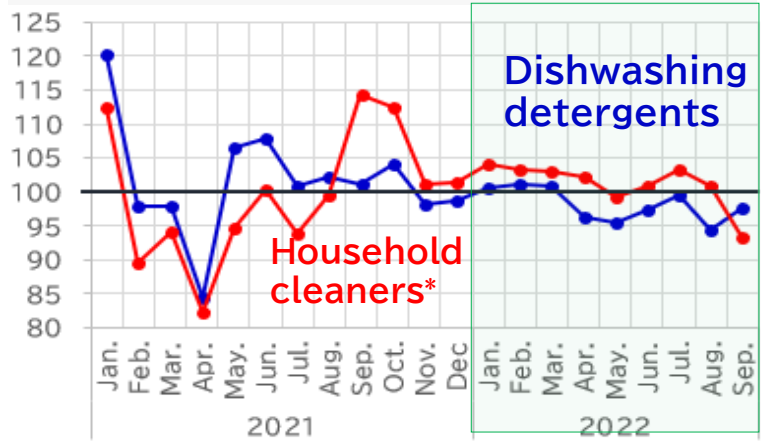
Beauty Care



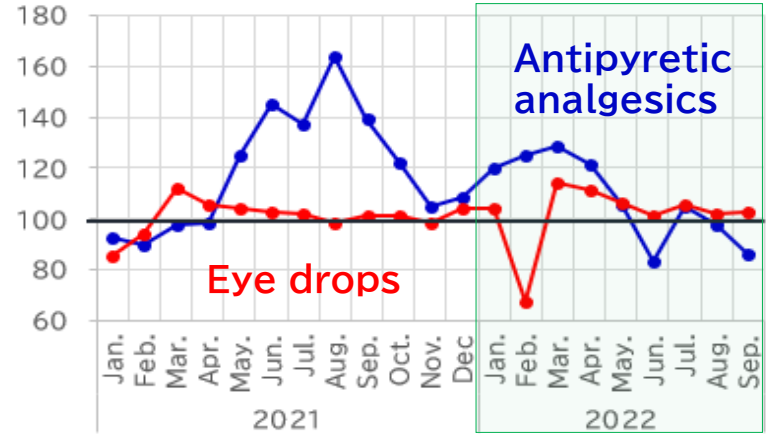
Fabric Care



Living Care



Pharmaceutical



Comparison of key categories in the first nine months of 2022 (%)

Category	Vs. '21	Vs. '20	Vs. '19
Toothpaste	101	104	105
Toothbrushes	102	102	96
Hand soaps	95	63	127
Laundry detergents	104	110	107
Fabric softeners	101	104	105
Dishwashing detergents	98	99	113
Household cleaners	101	98	112
Antipyretic analgesics	106	127	125

* "Household cleaners" above is the sum of home cleaners, bath detergents and bathroom detergents.

Market Trends—Major Product Categories Overseas

Toothbrushes and laundry detergents have seen recovery

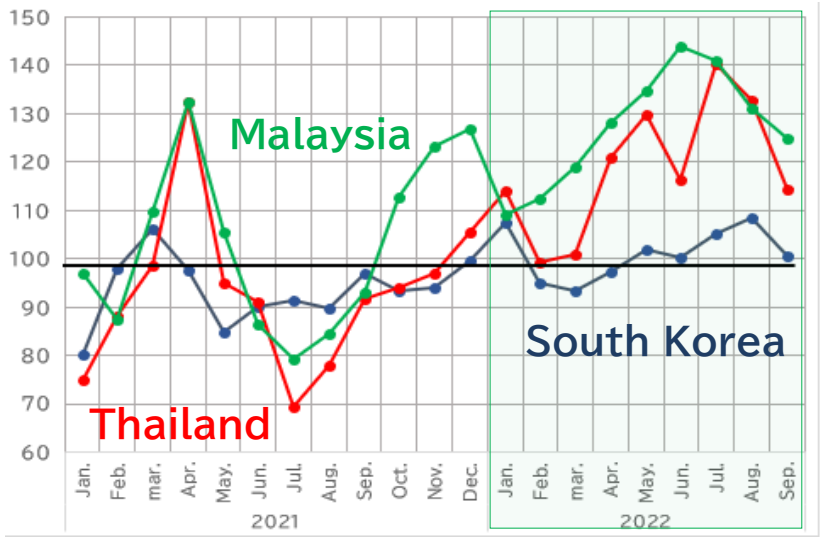
Sales value by country and category compared with previous years (%) (Jan.–Sep. 2022)

Source: Nielsen

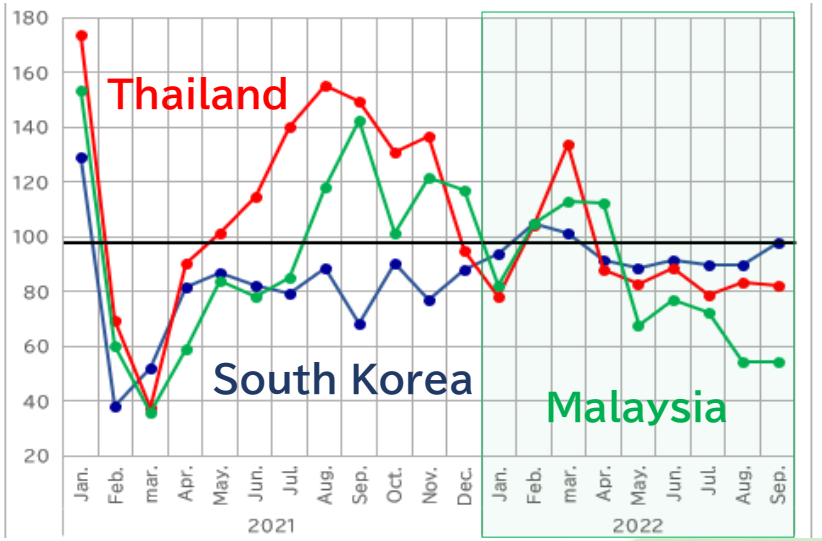
	Thailand			Malaysia			South Korea		
Category	Vs. ‘21	Vs. ‘20	Vs. ‘19	Vs. ‘21	Vs. ‘20	Vs. ‘19	Vs. ‘21	Vs. ‘20	Vs. ‘19
Toothbrushes	118	105	93	126	121	117	101	93	90
Hand soap	89	89	159	80	62	222	95	66	145
Laundry detergent	106	93	87	114	109	99	99	94	94

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

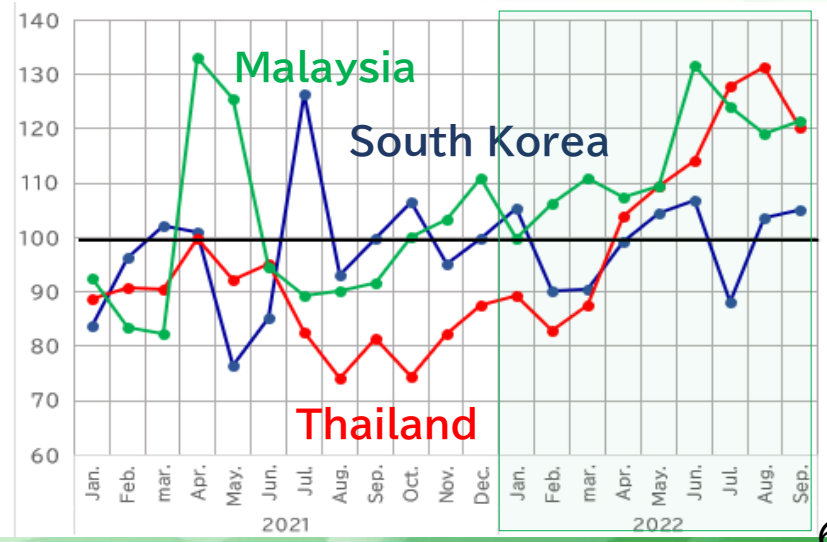
Toothbrushes



Hand soaps



Laundry detergents



Note: Figures for Malaysia represent the entire soap market, including the hand soap market.

Consolidated Financial Results

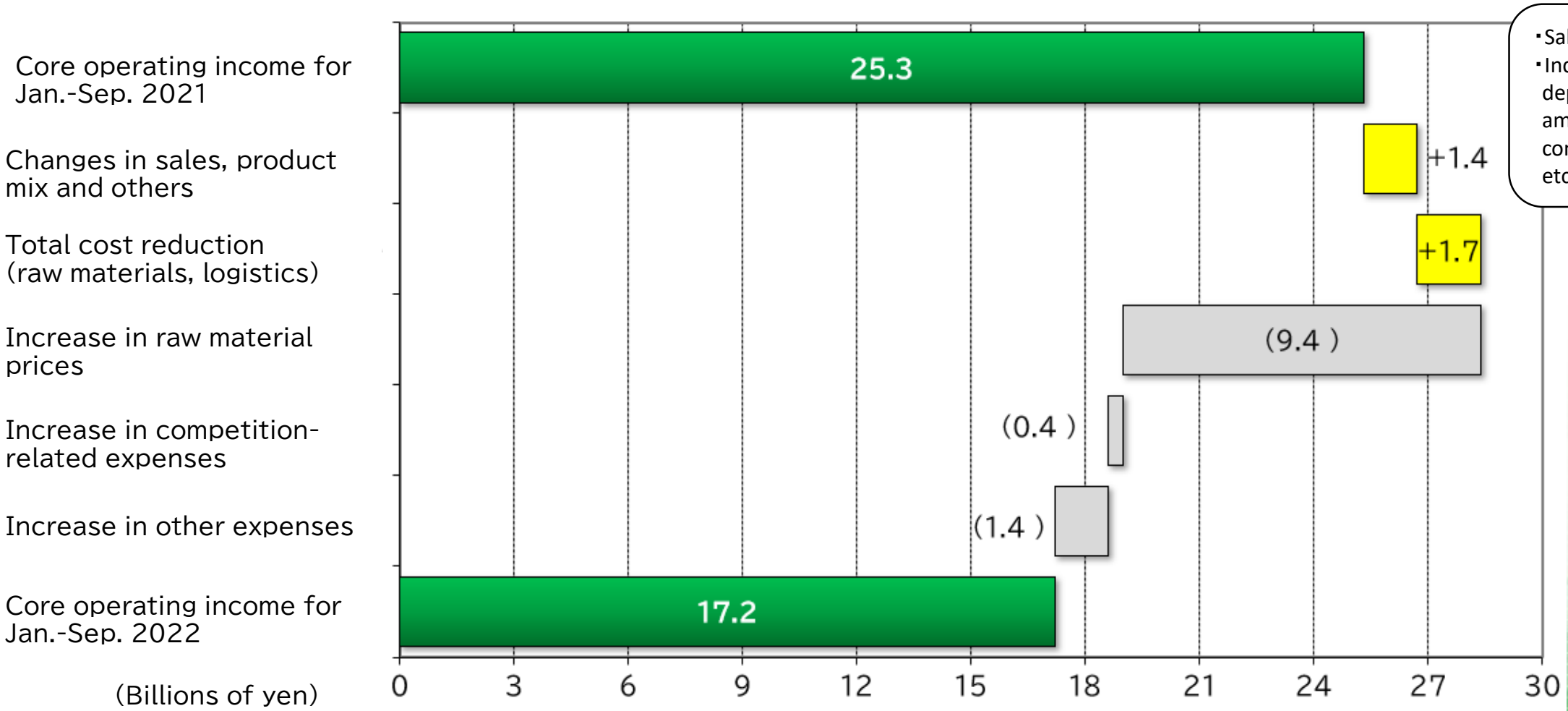
Net sales increased Y-o-Y, but core operating income decreased due to the growing impact of rising raw material prices

(Billions of yen)	Jan.–Sep. 2022	Jan.–Sep. 2021	Y-o-Y change	
			Amount	%
Net sales	286.1	267.5	18.5	6.9 3.9*
Core operating income*1 % of net sales	17.2 6.0	25.3 9.5	(8.1)	(32.2)
Operating profit % of net sales	22.3 7.8	25.4 9.5	(3.0)	(12.1)
Profit for the period attributable to owners of the parent	17.1	19.0	(1.9)	(10.1)
EPS (Yen)	60.04	65.46	(5.41)	(8.3)
EBITDA*2	28.7	35.6	(6.8)	(19.2)
EBITDA margin (%)*3	10.1	13.3	-	(3.2PP)

Notes 1. 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.
2 EBITDA is an indicator of profitability on a cash basis calculated as the sum of core operating income and depreciation and amortization (excluding that of right-of-use assets as of 2022).
3. EBITDA margin: The ratio of EBITDA to consolidated net sales.
* Y-o-Y change at constant currency excluding exchange rate fluctuations

Year-on-Year Changes in Core Operating Income

Despite retail price hikes and total cost reductions, the growing impact of increases in raw material prices led to an overall decrease



- Sales: +¥7.9 billion
- Increase in depreciation and amortization, segment composition changes, etc.: -¥6.5 billion

Impact of and Response to Raw Material Markets

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Core operating income for the first nine months was somewhat lower than assumed at the start of the year

Deviation from forecast for the year (Jan.–Sep. results)

Increase in raw material prices

-¥7.0 billion (-¥3.7 billion in Jan.–Sep.)

Lion's response and its effects

Raise sales prices, control promotional expenses by revising special sale prices and frequency

+¥5.2 billion
(+¥3.1 billion in Jan.–Sep.)

Additional cost reductions, cost streamlining

+¥3.5 billion
(+¥2.0 billion in Jan.–Sep.)

Segment composition changes, etc.

-¥1.7 billion
(-¥2.2 billion in Jan.–Sep.)

Total

±0 billion (-¥0.8 billion in Jan.–Sep.)

Results by Business Segment

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Reflecting the growing impact of rising raw material prices in the Consumer Products Business, sales increased but profit decreased

(Billions of yen)	Net sales				Segment profit (Core operating income)			
	Jan.–Sep. 2022	Jan.–Sep. 2021	Y-o-Y change		Jan.–Sep. 2022, %	Jan.–Sep. 2021, %	Y-o-Y change	
			Amount	%			Amount	%
Consumer Products	193.0	187.0	5.9	3.2	8.9 4.6%	15.9 8.5%	(6.9)	(43.8)
	167.3	166.9	0.3	0.2				
Industrial Products	42.3	36.8	5.4	14.9	2.3 5.7%	2.3 6.5%	0.0	0.1
	27.6	25.1	2.4	9.9				
Overseas	96.2	81.4	14.8	18.3	3.3 3.5%	4.7 5.9%	(1.4)	(29.7)
	88.1	73.6	14.4	19.7				
Other	11.2	22.8	(11.5)	(50.5)	0.8 7.7%	1.7 7.7%	(0.8)	(50.3)
	3.0	1.8	1.1	62.1				
Adjustment	(56.7)	(60.5)	3.7	-	1.6 -	0.5 -	1.1	-
	(0.0)	(0.0)	0.0	-				
Consolidated Total	286.1	267.5	18.5	6.9	17.2 6.0%	25.3 9.5%	(8.1)	(32.2)

* Upper lines: net sales; lower lines: sales to external customers
* From the first quarter of the fiscal year under review, due to a change in the business structure of consolidated Group subsidiary Lion Chemical Co., Ltd., said company's business, which was previously concentrated in the Industrial Products segment, has been divided between the Industrial Products and Consumer Products segments.
Segment information for the first nine months of the previous fiscal year has been restated to reflect this change.

Consumer Products Business Net Sales by Product Category

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Sales of oral care and beauty care products increased, while sales of living care products fell, due partly to market contraction
In Other, Group internal sales recorded by manufacturing subsidiaries rose

(Billions of yen)	Net sales			
	Jan.–Sep. 2022	Jan.–Sep. 2021	Y-o-Y change	
			Amount	%
Oral Care	52.0	49.8	2.1	4.3
Beauty Care	19.8	18.5	1.2	7.0
Fabric Care	43.9	44.0	(0.0)	(0.2)
Living Care	17.0	18.3	(1.2)	(6.8)
Pharmaceutical	17.9	18.4	(0.5)	(3.1)
Other	42.2	37.8	4.4	11.7
Total	193.0	187.0	5.9	3.2

Overseas Business Results by Region

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In Southeast Asia, sales in Thailand and Malaysia increased due to market recovery, but profit fell due to rising raw material prices
In Northeast Asia, sales and profit increased, driven by South Korea, despite the impact of changing e-commerce vendors in China

(Billions of yen)	Net sales				Core operating income			
	Jan.–Sep. 2022	Jan.–Sep. 2021	Y-o-Y change		Jan.–Sep. 2022	Jan.–Sep. 2021	Y-o-Y change	
			Amount	%			Amount	%
Southeast Asia	61.1	51.2	9.8	19.2	1.4	3.1	(1.6)	(52.3)
Northeast Asia	35.1	30.1	5.0	16.6	1.8	1.6	0.2	12.6
Total	96.2	81.4	14.8	18.3	3.3	4.7	(1.4)	(29.7)

*Y-o-Y change at constant currency excluding exchange rate fluctuations:
Southeast Asia: +9.1% (Thailand: +7.0%, Malaysia: +16.0%);
Northeast Asia: +5.0% (China*: -1.3%, South Korea: +16.4%); * Qingdao Lion
Total: +7.6%

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Consolidated Financial Results for the First Nine Months of 2022

Fiscal 2022 Financial Forecast

2022 Consolidated Financial Forecast

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Unchanged from the start of the year

(Billions of yen)	2022	2021	Y-o-Y change	
			Amount	%
Net sales	375.0	366.2	8.7	2.4
Core operating income*1 % of net sales	23.0 6.1	30.9 8.4	(7.9)	(25.6)
Operating profit % of net sales	27.5 7.3	31.1 8.5	(3.6)	(11.8)
Profit for the period attributable to owners of the parent	20.0	23.7	(3.7)	(15.8)
EPS (Yen)	68.79	81.73	(12.94)	(15.8)
EBITDA*2	40.0	45.1	(5.1)	(11.5)
EBITDA margin (%)*3	10.7	12.3	–	(1.6PP)
ROIC (%)*4	5.5	8.8	–	(3.3PP)
ROE (%)	8.0	9.8	–	(1.8PP)

Notes 1. 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.
2. EBITDA is an indicator of profitability on a cash basis calculated as the sum of core operating income and depreciation and amortization (excluding that of right-of-use assets as of 2022). ¥43.9 billion in 2021 (adjusted).
3. EBITDA margin: The ratio of EBITDA to consolidated net sales.
4. ROIC is an indicator calculated from net operating profit after tax (NOPAT) divided by the average invested capital (total equity plus interest bearing liabilities) during the period, and measures the efficiency and profitability of the invested equity.

Medium- to Long-Term Response (to Achieve the Medium-Term Management Plan)

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Lion will continue to implement four measures to achieve the targets of Vision2030 1st STAGE (2022–2024)

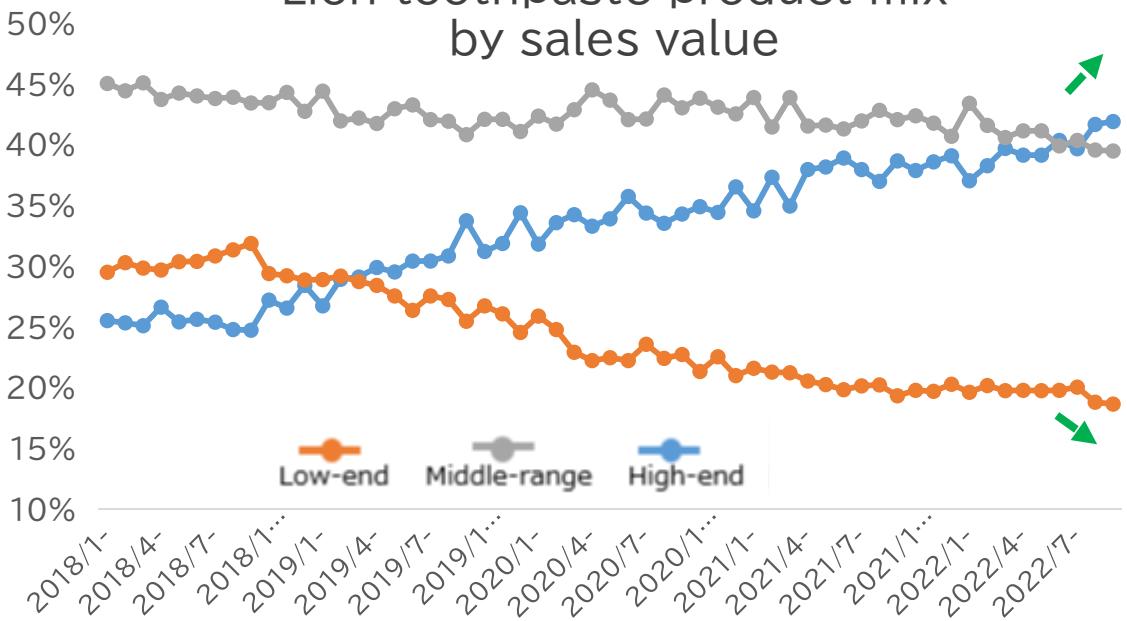
1. Accelerate introduction of high-value-added products
2. Revise profit structure by reshuffling the business portfolio
3. Increase sales prices (passing on increased raw material costs), revise special sale prices and frequency, etc.
4. Additional cost reductions and cost streamlining

Stimulating the Market and Increasing Profitability with High-Value-Added Products and Promotional Expense Control

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Maintain growth by accelerating the launch of high-value-added products

The portion of total sales value from high-end products is rising, and that from low-end products is falling

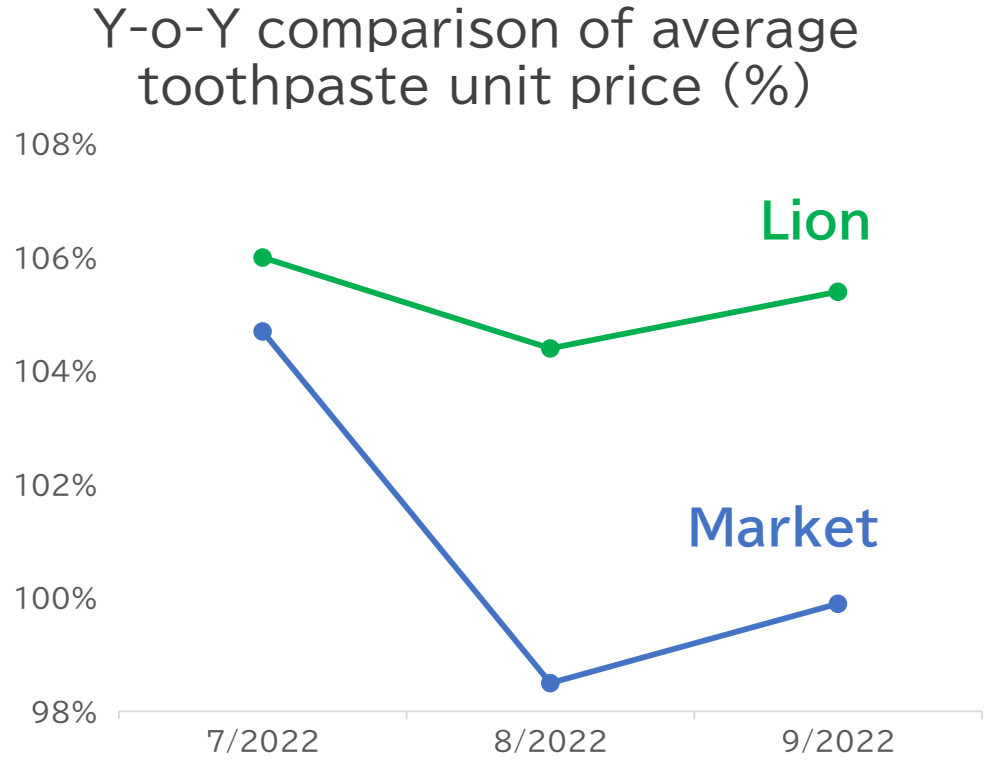




Low-end: Up to ¥237
Middle-range: ¥238 to ¥470
High-end: ¥471 and above

Y-o-Y comparison of average toothpaste unit price (%)

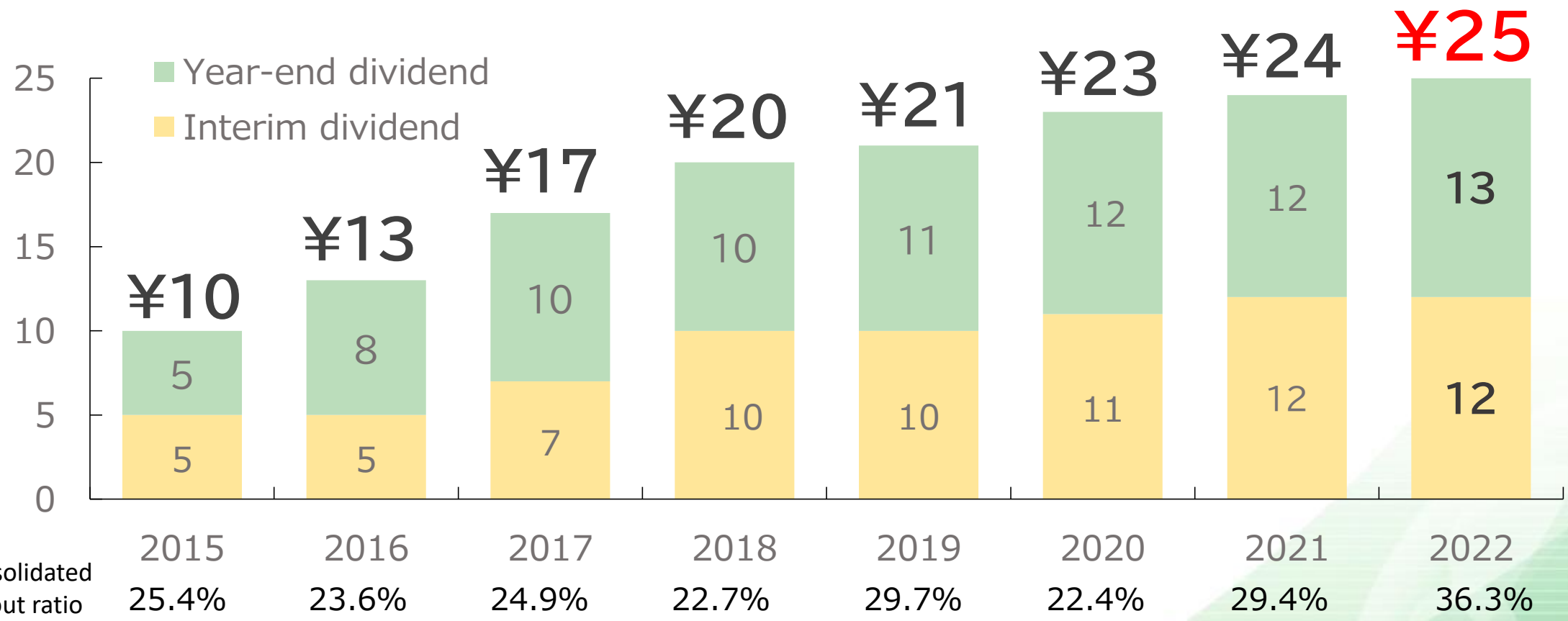
	7/2022	8/2022	9/2022
Lion	102	105	103
Market	101	103	101



Source: INTAGE Inc. SRI+

Shareholder Returns

Aiming to increase annual per-share dividend ¥1 to ¥25 (seventh consecutive year of increase)



Basic dividend policy

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

Reference Materials

Consolidated Results for July–September 2022

(Billions of yen)	2022 Jan.–Jun.	2022 Jul.–Sep.	Y-o-Y change Jul.–Sep.	
			Amount	%
Net sales	185.1	100.9	6.5	7.0
Core operating income*1 % of net sales	9.0 4.9	8.1 8.1	(3.2)	(28.5)
Operating profit % of net sales	14.2 7.7	8.1 8.1	(3.1)	(28.0)
Profit for the period attributable to owners of the parent	11.0	6.0	(2.1)	(26.3)
EPS (Yen)	38.75	21.29	(6.95)	(24.6)
EBITDA*2	16.8	11.9	(3.3)	(21.9)

Notes 1. 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.
2. EBITDA: An indicator of profitability on a cash basis calculated as the sum of core operating income and depreciation and amortization.

Segment Results for July–September 2022

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(Billions of yen)	Net sales				Segment income (core operating income)			
	2022 Jan.–Jun.	2022 Jul.–Sep.	Y-o-Y change Jul.–Sep.		2022 Jan.–Jun., %	2022 Jul.–Sep., %	Y-o-Y change Jul.–Sep.	
			Amount	%			Amount	%
Consumer Products	125.5	67.4	1.5	2.3	4.3 3.4%	4.6 6.9%	(3.1)	(40.6)
	108.5	58.7	(0.9)	(1.6)				
Industrial Products	27.2	15.1	2.2	17.9	1.5 5.7%	0.8 5.6%	0.0	1.2
	18.2	9.4	0.8	9.7				
Overseas	61.1	35.0	7.2	26.1	1.8 3.1%	1.4 4.2%	0.1	14.3
	55.6	32.4	7.1	28.1				
Other	6.4	4.8	(1.6)	(25.1)	0.4 7.5%	0.3 7.9%	(0.3)	(48.0)
	2.9	0.1	(0.5)	(80.9)				
Adjustment	(35.1)	(21.5)	(2.8)	-	0.8 -	0.7 -	0.1	-
	(0.1)	0.1	0.1	-				
Consolidated total	185.1	100.9	6.5	7.0	9.0 4.9%	8.1 8.1%	(3.2)	(28.5)

* Upper lines: net sales; lower lines: sales to external customers
* From the first quarter of the fiscal year under review, due to a change in the business structure of consolidated Group subsidiary Lion Chemical Co., Ltd., said company's business, which was previously concentrated in the Industrial Products segment, has been divided between the Industrial Products and Consumer Products segments.
Segment information for the first nine months of the previous fiscal year has been restated to reflect this change.

Consumer Products Net Sales for July–September 2022

(Billions of yen)	Total net sales			
	2022 Jan.–Jun.	2022 Jul.–Sep.	Y-o-Y change Jul.–Sep.	
			Amount	%
Oral care	33.6	18.3	0.6	3.7
Beauty care	12.5	7.2	0.3	5.7
Fabric care	28.9	15.0	(0.3)	(2.6)
Living care	11.4	5.6	(1.0)	(15.6)
Pharmaceuticals	11.1	6.7	(0.3)	(4.6)
Other	27.8	14.3	2.2	18.3
Total	125.5	67.4	1.5	2.3

Consolidated Statement of Income

(Billions of yen)	Jan.–Sep. 2022	Jan.–Sep. 2021	Y-o-Y change	
			Amount	%
Net sales	286.1	267.5	18.5	6.9
Cost of sales	158.4	134.3	24.1	17.9
Gross profit	127.6	133.2	(5.5)	(4.2)
Selling, general and administrative expenses	110.4	107.8	2.6	2.4
Core operating income	17.2	25.3	(8.1)	(32.2)
Other income	6.2	0.8	5.3	639.4
Other expenses	1.0	0.7	0.2	36.9
Operating profit	22.3	25.4	(3.0)	(12.1)
Finance income	0.8	0.5	0.3	62.3
Finance costs	0.0	0.1	(0.0)	(7.2)
Share of profit of investments accounted for using the equity method	1.5	1.7	(0.2)	(13.9)
Profit before tax	24.7	27.6	(2.9)	(10.7)
Income taxes	6.9	7.3	(0.4)	(5.7)
Profit for the period	17.7	20.3	(2.5)	(12.6)
Profit for the period attributable to non-controlling interests	0.6	1.2	(0.6)	(49.2)
Profit for the period attributable to owners of the parent	17.1	19.0	(1.9)	(10.1)

Selling, General and Administrative Expenses

(Billions of yen)	Jan.–Sep. 2022		Jan.–Sep. 2021		Y-o-Y change	
	Amount	% of sales (%)	Amount	% of sales (%)	Amount	%
Selling, general and administrative expenses	110.4	38.6	107.8	40.3	2.6	2.4
Sales commissions	7.3	2.6	7.2	2.7	0.0	1.2
Promotional expenses	22.9	8.0	20.4	7.6	2.5	12.5
Advertising expenses	16.0	5.6	18.3	6.9	(2.2)	(12.4)
Transportation and warehousing expenses	15.5	5.4	14.7	5.5	0.7	5.0
R&D expenses	8.0	2.8	8.1	3.0	(0.0)	(1.0)
Other expenses	40.4	14.1	38.9	14.5	1.5	4.0

Consolidated Statement of Financial Position

(Billions of yen)		September 30, 2022	December 31, 2021	Change
Current assets		217.1	232.1	(15.0)
	Cash and cash equivalents	85.1	97.2	(12.1)
	Trade and other receivables	66.0	70.1	(4.1)
	Inventories	55.7	51.7	4.0
Non-current assets		199.9	195.8	4.0
	Property, plant and equipment	125.6	120.6	4.9
	Intangible assets	24.1	23.9	0.1
	Right-of-use assets	4.9	5.4	(0.4)
	Other financial assets	22.5	21.8	0.7
Total assets		417.0	428.0	(10.9)

Consolidated Statement of Financial Position

(Billions of yen)		September 30, 2022	December 31, 2021	Change
Current liabilities		120.9	139.2	(18.2)
	Trade and other payables	106.5	123.1	(16.5)
	Lease liabilities	1.3	1.4	(0.1)
	Other current liabilities	7.2	8.1	(0.8)
Non-current liabilities		24.7	23.7	0.9
	Retirement benefit liabilities	13.6	12.6	0.9
	Lease liabilities	4.5	5.0	(0.5)
Equity		271.3	265.0	6.3
	Share capital	34.4	34.4	-
	Capital surplus	30.9	35.1	(4.2)
	Treasury stock	(8.0)	(4.7)	(3.3)
	Other components of equity	15.4	9.3	6.1
	Retained earnings	184.0	177.3	6.6
Total liabilities and equity		417.0	428.0	(10.9)

Consolidated Statement of Cash Flows

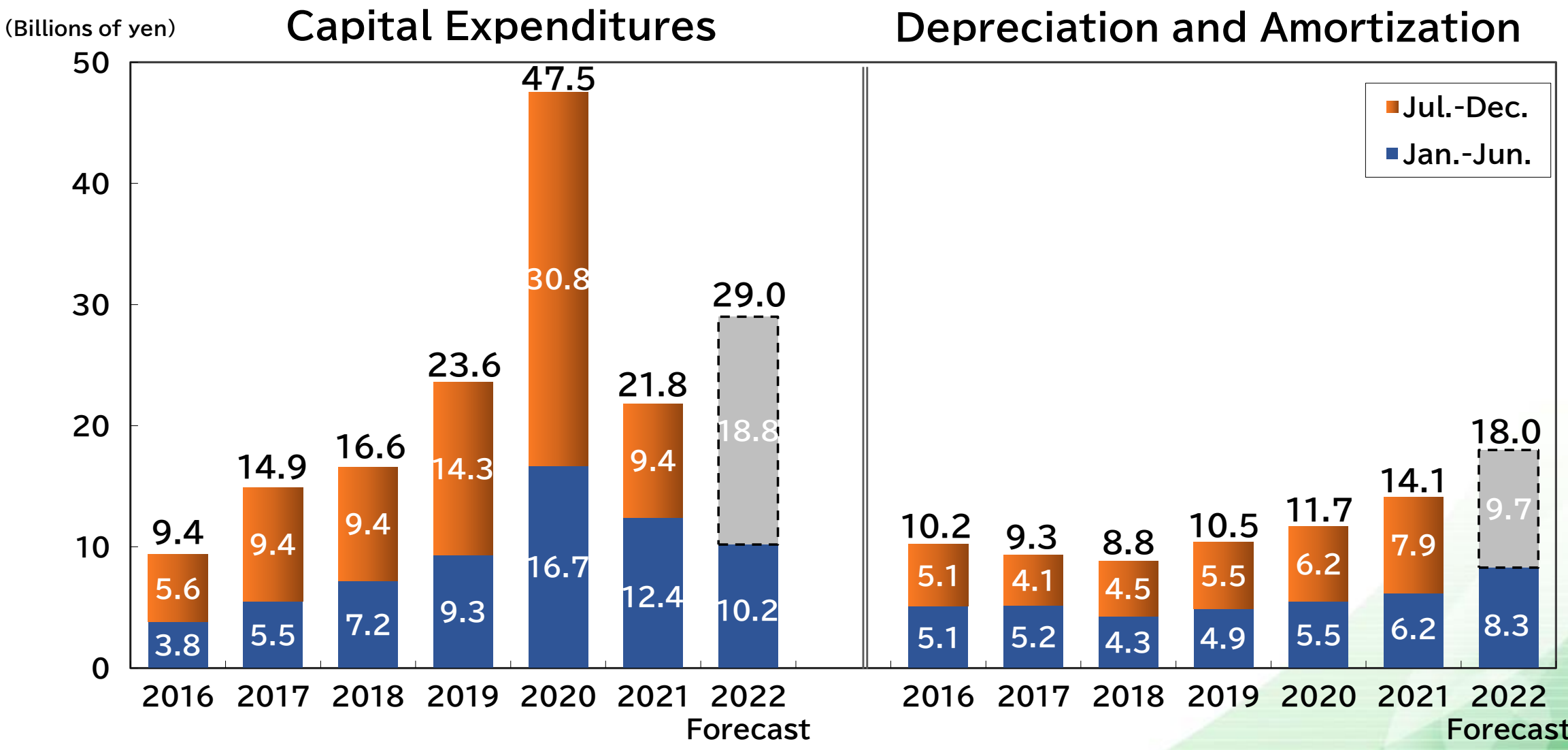
(Billions of yen)	September 30, 2022	September 30, 2021	Change
Cash flows from operating activities	18.6	(5.0)	23.6
Cash flows from investing activities	(13.3)	(28.1)	14.8
Cash flows from financing activities	(19.2)	(9.6)	(9.5)
Effect of exchange rate changes on cash and cash equivalents	1.8	0.3	1.4
Net increase (decrease) in cash and cash equivalents	(12.1)	(42.4)	30.3
Cash and cash equivalents at beginning of period	97.2	121.5	(24.2)
Cash and cash equivalents at end of period	85.1	79.0	6.0

Revision of Factors Affecting the Core Operating Income Forecast for 2022

(Billions of yen)	Initial forecast	August revision	Change
Changes in sales, product mix and others	+2.1	+3.0	+0.9
Total cost reduction (raw materials, logistics, etc.)	+2.0	+3.0	+1.0
Changes in raw material prices	(6.0)	(13.0)	(7.0)
Changes in competition-related expenses	(3.0)	(0.4)	+2.6
Changes in other expenses	(3.0)	(0.5)	+2.5
Total	(7.9)	(7.9)	±0

While the impact of rising raw material prices is greater than initially assumed, we will absorb this by advancing total cost reductions and reducing competition-related expenses and other expenses, aiming to reach the amount planned at the start of the year

Capital Expenditures and Depreciation and Amortization



*Capital expenditures and depreciation and amortization both include intangible assets.

Changes in Household Products Market and OTC Drug Market

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1) Market Environment for Household Products (37 markets, SRI/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)

	2017	2018	2019	2020	2021	Jan.–Sep. 2022
Sales value	99	102	102	112	95	101
Unit sales	98	100	100	105	92	97
Average unit price	102	102	102	106	103	104

Source: INTAGE Inc. SRI Survey (data for 2016 is for 38 markets; data for 2017 is for 37; data for 2018–2020 is for 38)
SRI+ Survey data (data for 2021 is for 38 markets; data for 2022 is for 37)

2) Market Environment for Household Products (14 markets, SCI**)

	2017	2018	2019	2020	2021	Jan.–Sep. 2022
Sales value	103	102	105	108	102	102
Unit sales	101	100	102	101	96	96
Average unit price	102	103	104	106	107	106

Source: INTAGE Inc. SCI survey (data for 2016–2019 is for 15 markets; data for 2020 onward is for 14)

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

** The SCI survey collects purchasing data from around 50,000 shoppers (age 15-69) nationwide except for Okinawa

Changes in Household Products Market and OTC Drug Market

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

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)

	2017	2018	2019	2020	2021	Jan.–Sep. 2022
Sales value	103	102	100	93	103	102
Unit sales	101	101	99	89	101	101
Average unit price	102	101	101	105	102	101

Source: INTAGE Inc. SDI Survey (data for 2016–2018 is for 8 markets; data for 2019–2020 is for 7), SRI+ Survey (data for 2021 onward is for 7 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)

	2017	2018	2019	2020	2021	Jan.–Sep. 2022
Sales value	103	104	104	102	110	99
Unit sales	100	102	102	99	107	98
Average unit price	103	102	102	103	103	101

Source: INTAGE Inc. SCI survey

Assumed Raw Material Prices and Exchange Rates for the Second Half of 2022

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Raw Material Prices

	Dubai Crude	Domestic Naphtha	Crude Palm Oil
2022 second-half assumptions	105.0$/BBL	JPY82,000/KL	5,200RM/ton

Exchange Rates

	U.S. Dollar	Thai Baht
2022 second-half assumptions	JPY130.0	JPY3.60

Reference

	Dubai Crude	Domestic Naphtha	Crude Palm Oil
2022 initial assumptions	75.0$/BBL	JPY58,000/KL	5,000RM/ton

	U.S. Dollar	Thai Baht
2022 initial assumptions	JPY110.0	JPY3.40

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