



Earnings briefing materials for 2Q of the fiscal year ending December 2021

08/06/2021

Earth Corporation

1. FY12/2021 2Q Results

2. Full-year FY12/2021 Forecast

3. Future Initiatives and Management Policy



Earth Corporation

1. FY12/2021 2Q Results

Summary of FY12/2021.2Q



- **Sales Overview (YoY 104.7%; VS. Forecast 102.0%)**
 - ▶ Domestic : Increase in sales centered around insecticides & repellents and bath salts; Continued “New Normal” demand
 - ▶ Overseas : Secured sales growth despite the negative impact of the COVID-19 pandemic
- **Operating Income Overview (YoY 115.9%; VS. Forecast 115.3%)**
 - ▶ Gross Profit : Mix improved thanks to strong sales of high-margin products
 - ▶ SG&A Expenses : Within the forecast range, thanks to the execution of adequate controls, for items like marketing expenses
- **Financial Condition**
 - ▶ Equity Ratio increased by 1.7pt VS. FYE12/2020 (46.1% ➡ 47.8%)
 - ▶ Stable free cash flow generation

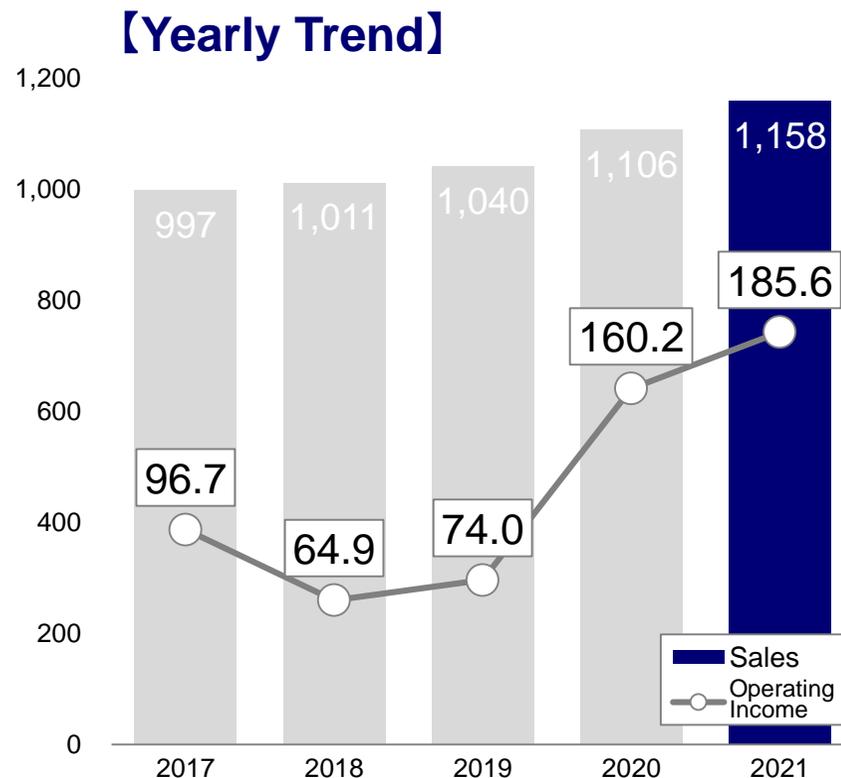
FY12/2021.2Q Results Highlights



- Sales and profit growth; Forecast target achieved
- Significantly exceeded past records to achieve the best performance ever as of the end of 2Q

(Unit: 0.1 billion JPY)

	FY2020.2Q (Realized)	FY2021.2Q (Forecast)	FY2021.2Q (Realized)
Sales	1,106	1,136	1,158
Gross Profit	477.7	504.0	516.0
Operating Income	160.2	161.0	185.6
Ordinary Income	161.3	163.0	189.0
Net Income attributable to owners of parent	109.4	109.5	127.5
EBITDA	189.7	190.0	212.0

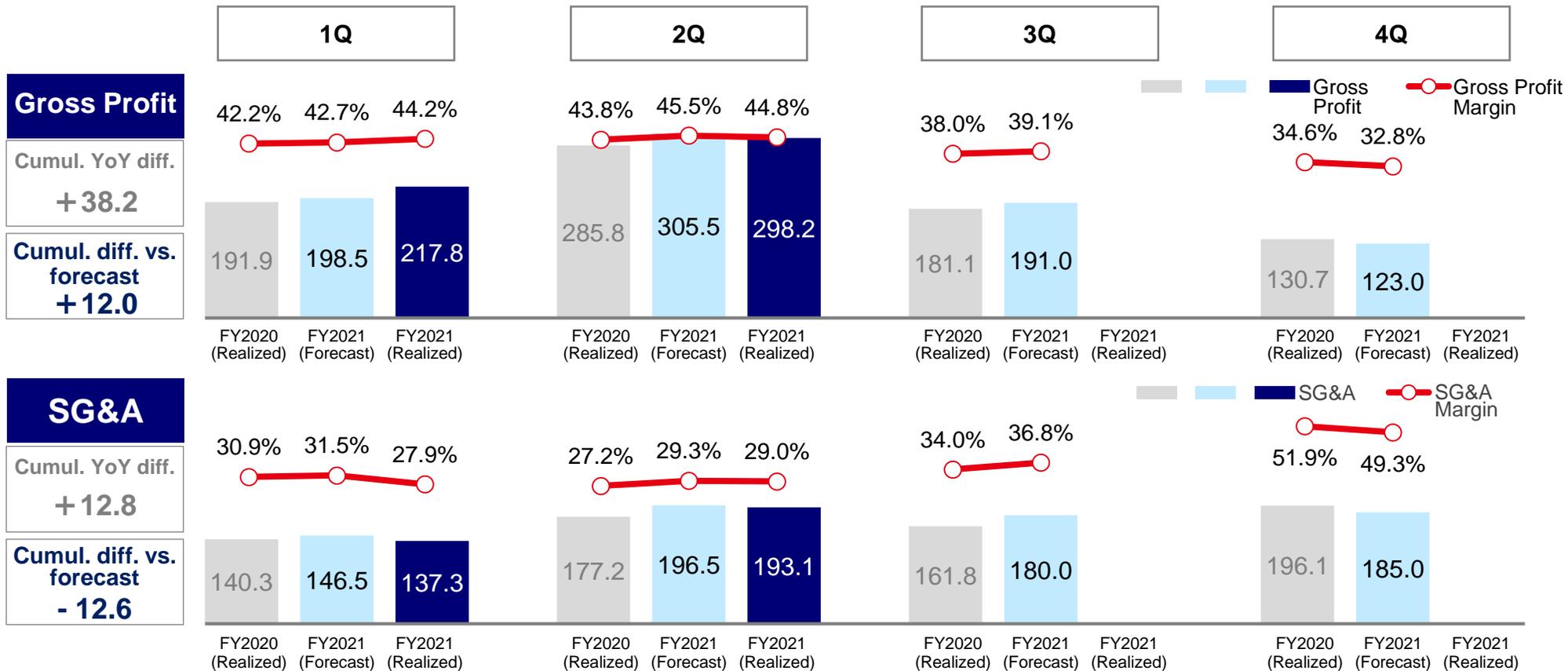


Quarterly Results



(Unit: 0.1 billion JPY)

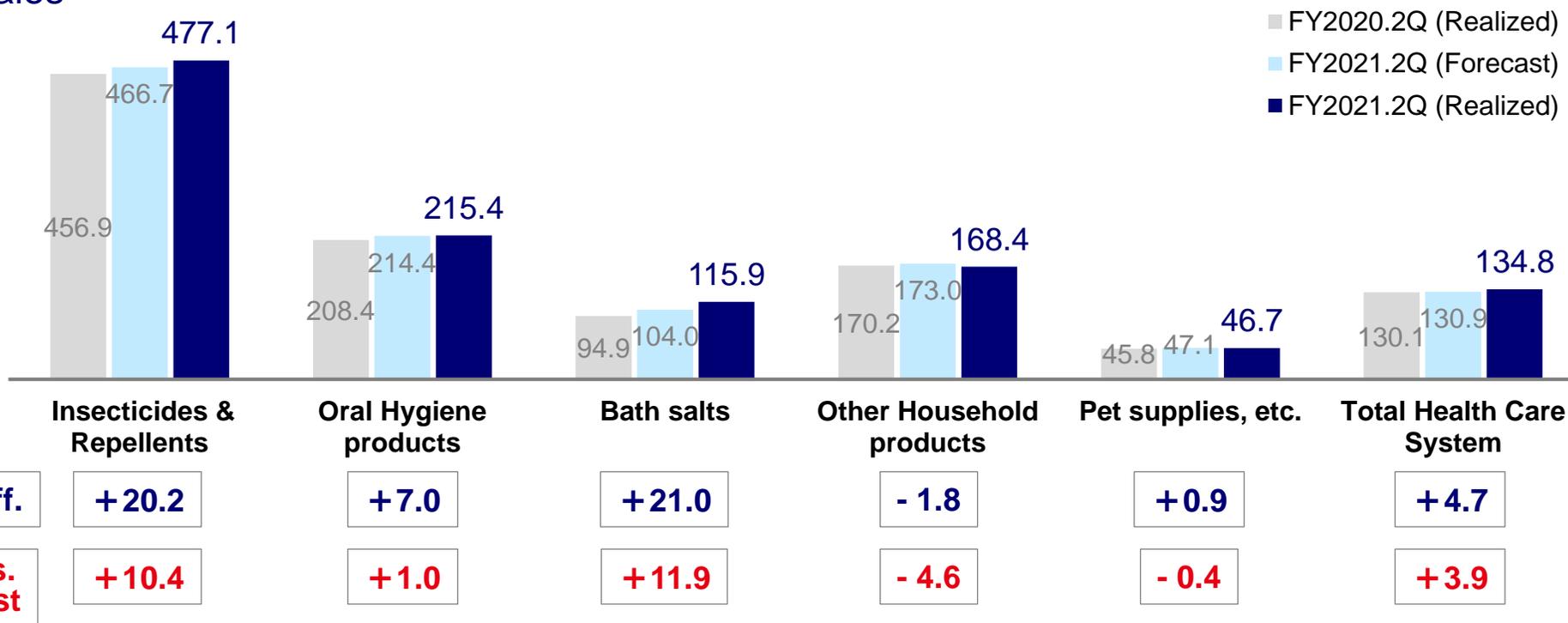
- Reformed the profit structure, allowing for the steady generation of profits
- Gross profit margin continues to improve QoQ; SG&A expenses are contained to appropriate levels



Sales by Segment

(Unit: 0.1 billion JPY)

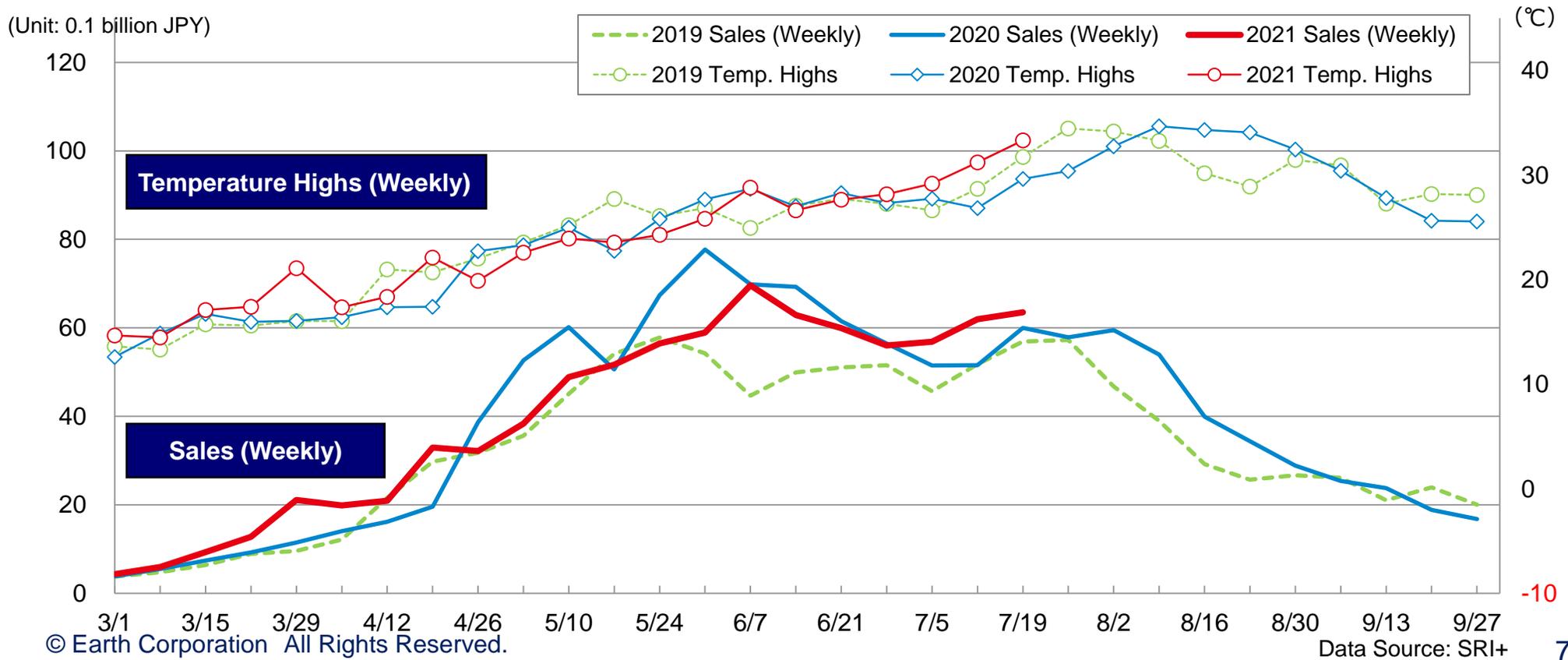
- Initiatives in the Insecticides & Repellents segment contributed to avoiding opportunity loss, leading to sales growth
- Sales of bath salts increased considerably, thanks to an expansion in demand resulting from the “New Normal” and changes in consumer lifestyles.
- The possible impact of COVID-19 on the Total Health Care System was a concern. However, this segment registered sales growth thanks to an increase in SPOT contracts and product sales



Overview of the Market for Insecticides & Repellents (Domestic)



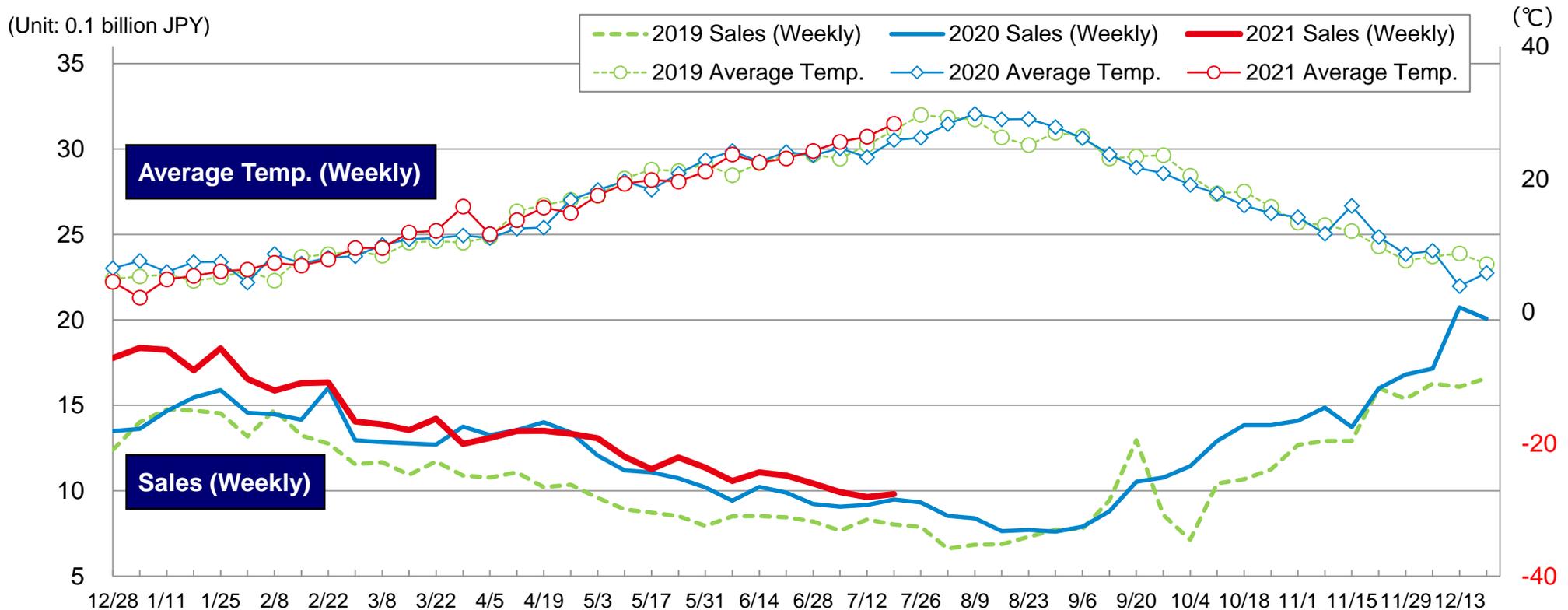
- Cumulative sales as of the end of June, on a year-on-year comparative basis with 2020 – which saw strong sales: **96%** (April – June : YoY 93%)
- Significant sales increase vs. 2019 (pre-Pandemic) (vs. 2019 – End of June Cumul. **116%**)
- YoY overperformance on a weekly basis starting in July; Cumulative sales approaching last-year levels



Overview of the Market for Bath Salts (Domestic)



- Sales of bath salts have risen starting in April 2020, resulting from “New Normal” and changes in consumers’ lifestyles
- Cumulative sales as of the end of June stood at **110% YoY**; Market continues showing signs of strength
- Significant sales increase vs. 2019 (pre-Pandemic) (vs. 2019 – End of June Cumul. **126%**)



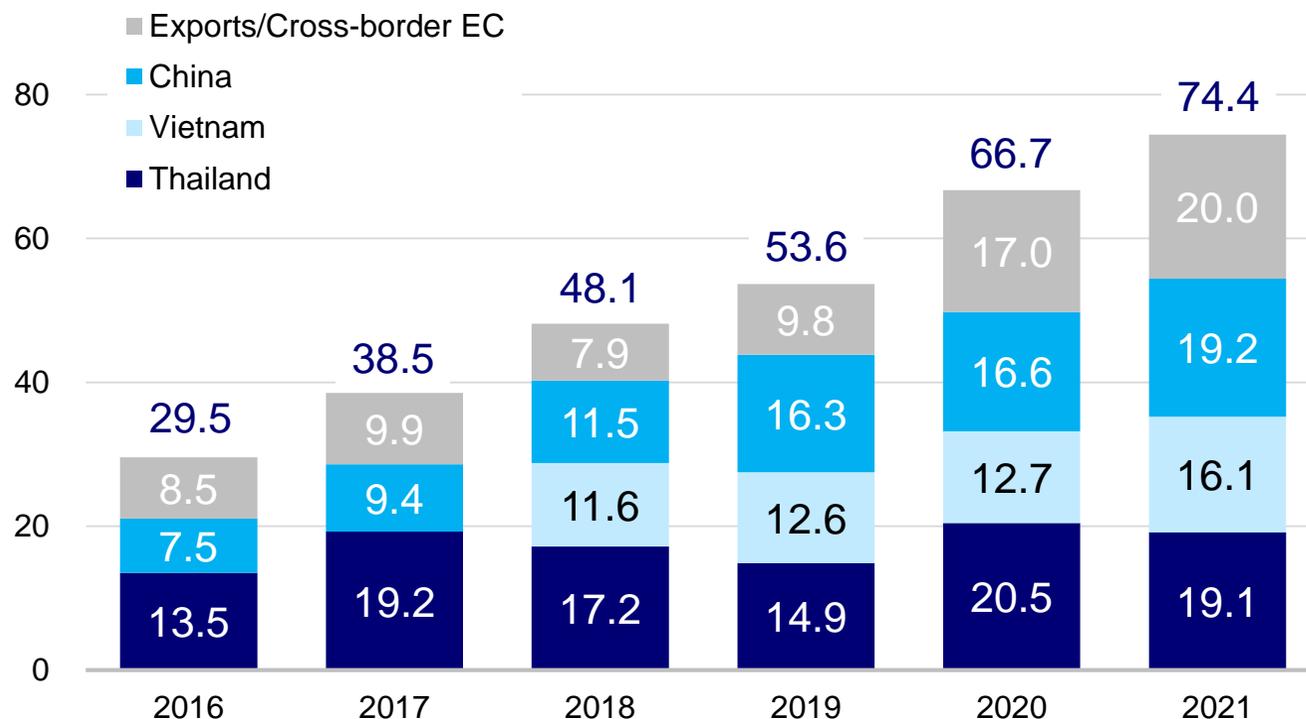
Overseas Results (Including Cross-Border EC)



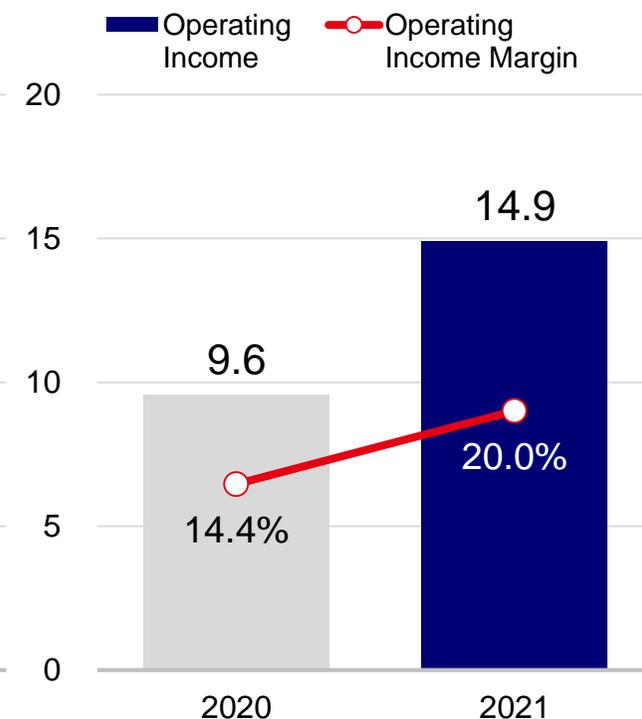
(Unit: 0.1 billion JPY)

- Challenging business climate in Southeast Asia, resulting from lockdowns associated with the COVID-19 pandemic
- Total overseas sales delivered steady growth and stood at 111.5% YoY; Steady improvements in profitability

Overseas Sales



Overseas OI (Simple Sum)



Operating Income Change Factors (YoY)

(Unit: 0.1 billion JPY)

<u>160.2</u>	FY2020.2Q (Realized)	<Breakdown>	
+ 25.4	Increase in gross profit + 38.2	<ul style="list-style-type: none"> • Increase in gross profit due to an increase in sales + 22.8 • Impact from changes in the sales composition ratio + 15.4 	
	Increase in SG&A expenses had a negative profit impact - 12.8	<ul style="list-style-type: none"> • Increase in personnel expenses - 4.4 • Increase in distribution expenses - 1.9 • Increase in advertising expenses - 0.6 • Increase in sales promotion expenses - 1.8 • Increase in R&D expenses - 1.4 • Decrease in goodwill amortization + 2.7 • Others (Taxes; Depreciation expenses; Misc. expenses; commissions paid, etc.) - 5.4 	
<u>185.6</u>	FY2021.2Q (Realized)		

Operating Income Change Factors (vs. Forecast)

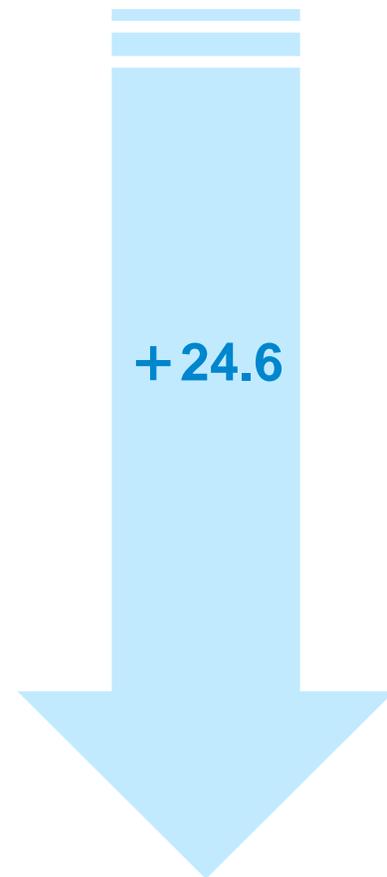


(Unit: 0.1 billion JPY)

161.0 **FY2021.2Q
(Forecast)**

<Breakdown>

Gross Profit overperformance +12.0	<ul style="list-style-type: none"> • Positive effect from achieving the sales forecast +9.8
	<ul style="list-style-type: none"> • Impact from changes in the sales composition ratio +2.2
Curbing SG&A expenses had a positive profit impact +12.6	<ul style="list-style-type: none"> • Personnel expenses below the forecast +1.6
	<ul style="list-style-type: none"> • Distribution expenses below the forecast +0.7
	<ul style="list-style-type: none"> • Curbed/moved to next FY advertising expenses +4.8
	<ul style="list-style-type: none"> • Curbed sales promotion expenses +0.4
	<ul style="list-style-type: none"> • R&D expenses below the forecast +0.6
	<ul style="list-style-type: none"> • Others (Travel & meeting expenses; including impact of COVID-19) +4.5



185.6 **FY2021.2Q
(Realized)**



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2. Full-year FY12/2021 Forecast

Continually Launch Attractive Products

- Make significant contributions to revitalizing the market and growing sales through product development through “the eyes of our customers”
- Scheduled to launch numerous new products in 2H of 2021

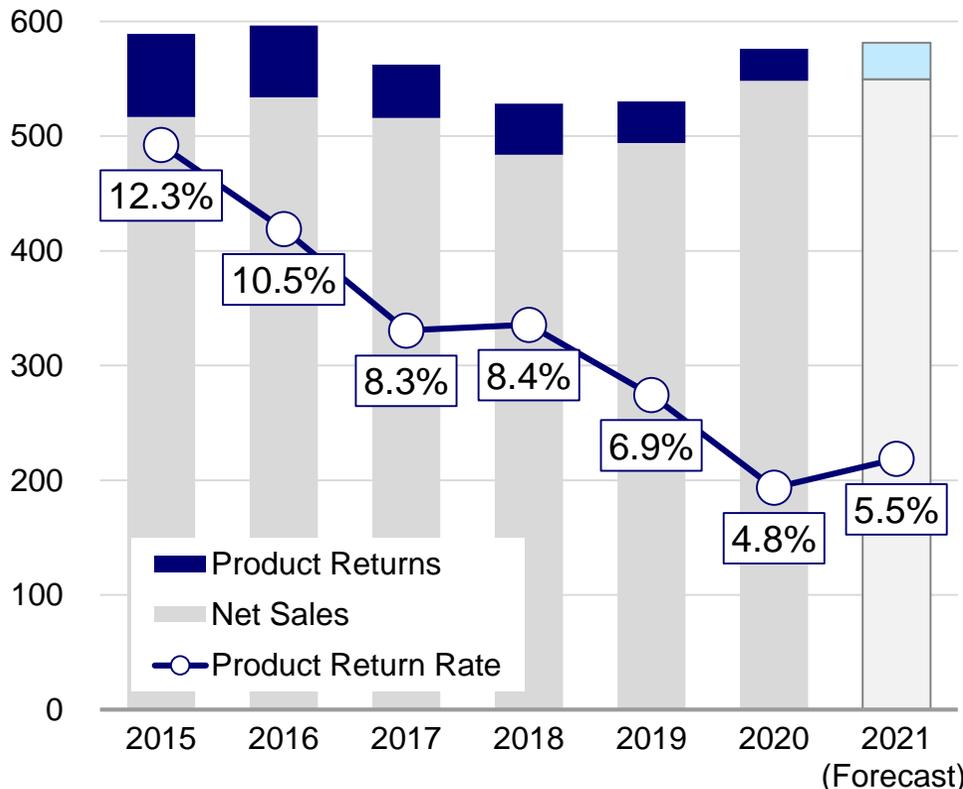
	2018	2019	2020	2021
1H				
2H				
% Contrib.	<p>Single year : 3.8%</p> <p>Three years : 12.3%</p>	<p>Single year : 4.3%</p> <p>Three years: 10.3%</p>	<p>Single year : 3.4%</p> <p>Three years : 9.3%</p>	

Product Returns Forecast – Domestic Insecticides & Repellents Segment



(Unit: 0.1 billion JPY)

- We forecast the product return rate to remain low, as it was in 2020
- In recent months, we have been seeing strong store sales, potentially allowing us to exceed guidance
- Reducing product returns and waste allows us to reduce our environmental footprint



Reducing Product Returns: Overview of Initiatives

- **Secure sales throughout the year**
 - Early deployment; Continued deployment late into the season
 - Expand sales space for staple products sold all year round
- **Change in the agency distribution system**
 - Establish rebates tied to the reduction of product returns
- **Establish items to curb product returns**
 - ➔ **Expand**
 - Eliminate product returns, primarily of staple products sold all year round

Full-year FY12/2021 Forecast (Revised 07/28/2021)

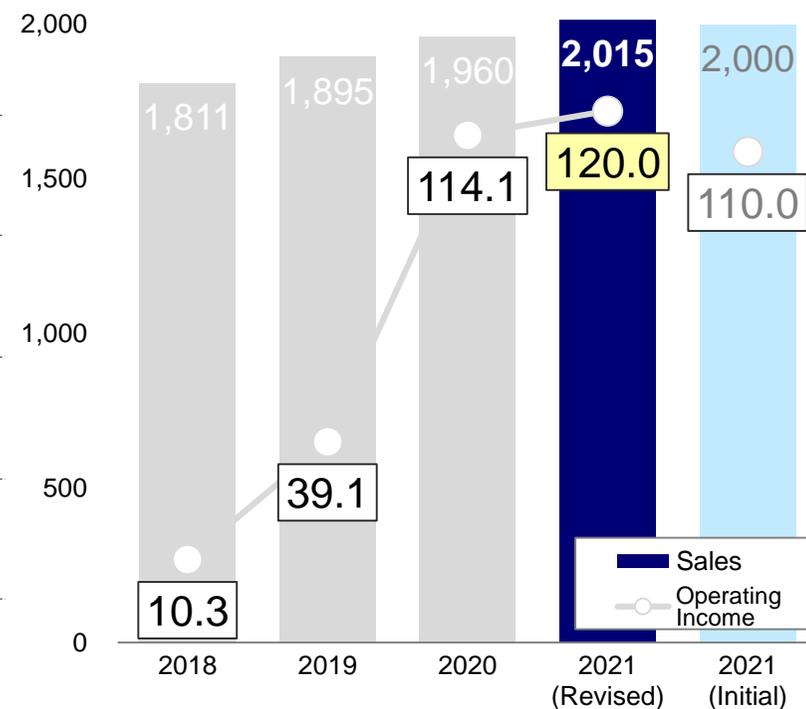


- July 28, 2021: Raised guidance for the full fiscal year ending December 2021
- We are expecting to break new sales and profit records

	FY2020 (Realized)	FY2021 (Initial Forecast)	FY2021 (Revised Forecast)
Sales	1,960	2,000	2,015
Gross Profit	789.5	818.0	836.0
Operating Income	114.1	110.0	120.0
Ordinary Income	116.6	115.0	124.0
Net Income attributable to owners of parent	35.4	70.0	77.0
ROE	7.4%	12.0%	13.3%

(Unit: 0.1 billion JPY)

【Yearly Trend】





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3. Future Initiatives and Management Policy

Act For SMILE

– COMPASS 2023 –

Outline of MTBP (2021 – 2023)



- Advance and expand upon MTBP (2016 – 2020) initiatives
- Redefine a Group-wide evaluation compass, with a view toward structural reform



2023 Quantitative Targets / KPI



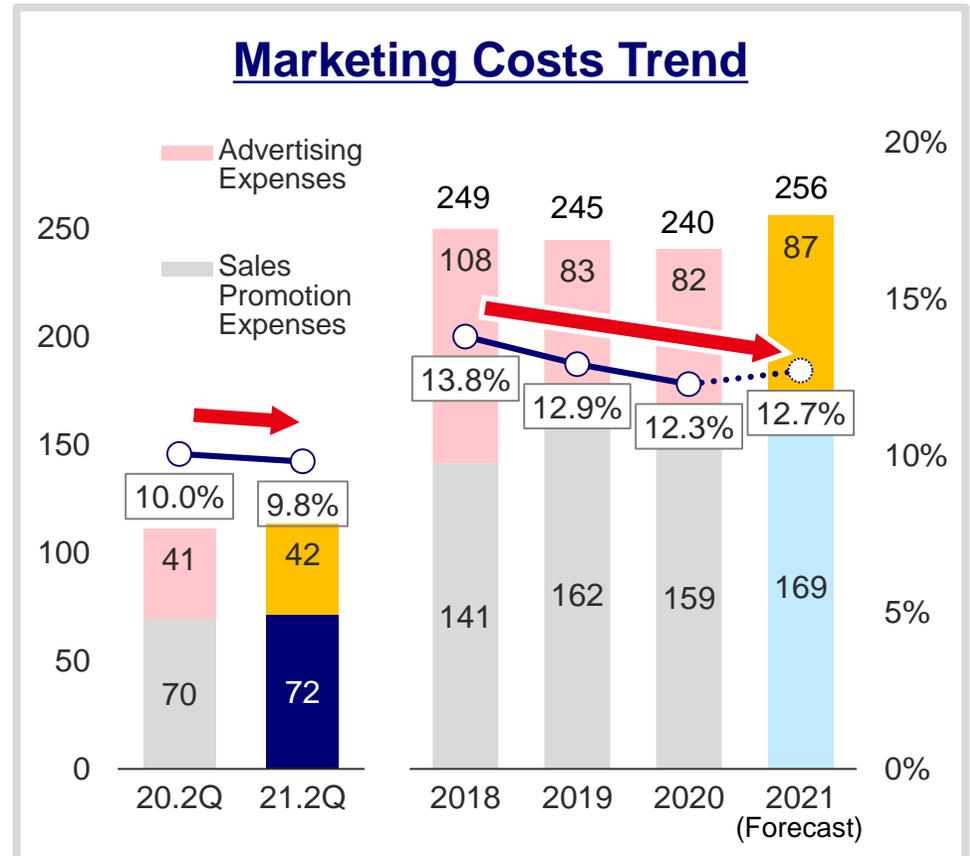
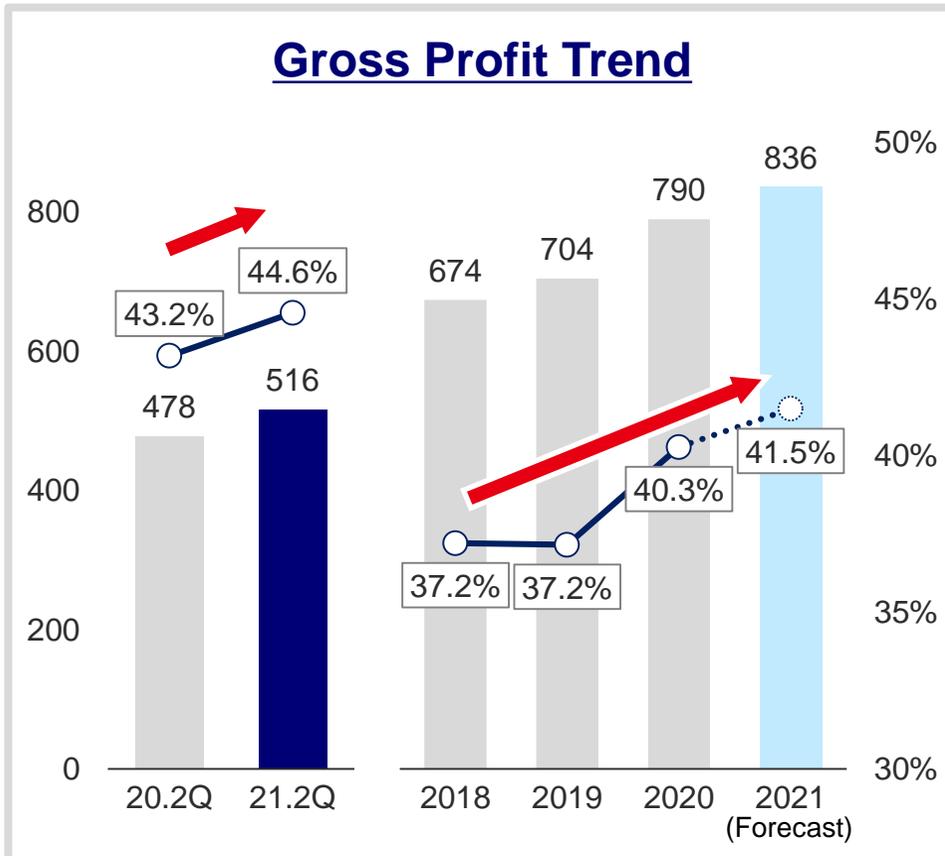
	Indicator	Scope
[Profitability]	• Sales Marginal Operating Income = Gross Profit - (Sales Promotion + Distribution costs)	• Evaluate the profitability of sales activities
	• Contribution Income = Operating Income + Indirect Department costs	• Evaluate profitability on a segment and category basis
[Capital Efficiency]	• Cost of Capital	• Decision to execute an investment project

	2020 (Realized)	2023 (Forecast)	Change
Sales	196.0B JPY	▶ 213.0B JPY	+17.0B JPY
Operating Income	11.4B JPY	▶ 14.0~16.0B JPY	+2.6~4.6B JPY
Net Income	3.54B JPY	▶ 10.0B JPY	+6.45B JPY
ROE	7.4%	▶ 13.0% or above	+5.6pt or above
DOE	5.1%	▶ 4.0% or above	

Improvements to the Profit Structure: Results of Initiatives

(Unit: 0.1 billion JPY)

- Gross Profit : Improvements to the product portfolio
(Reduced unprofitable SKUs; launch high-margin products)
- Mktg. Costs : Thorough control / visualization of sales promotion and advertising expenses ➡ System allowing us to devise strategies in real time

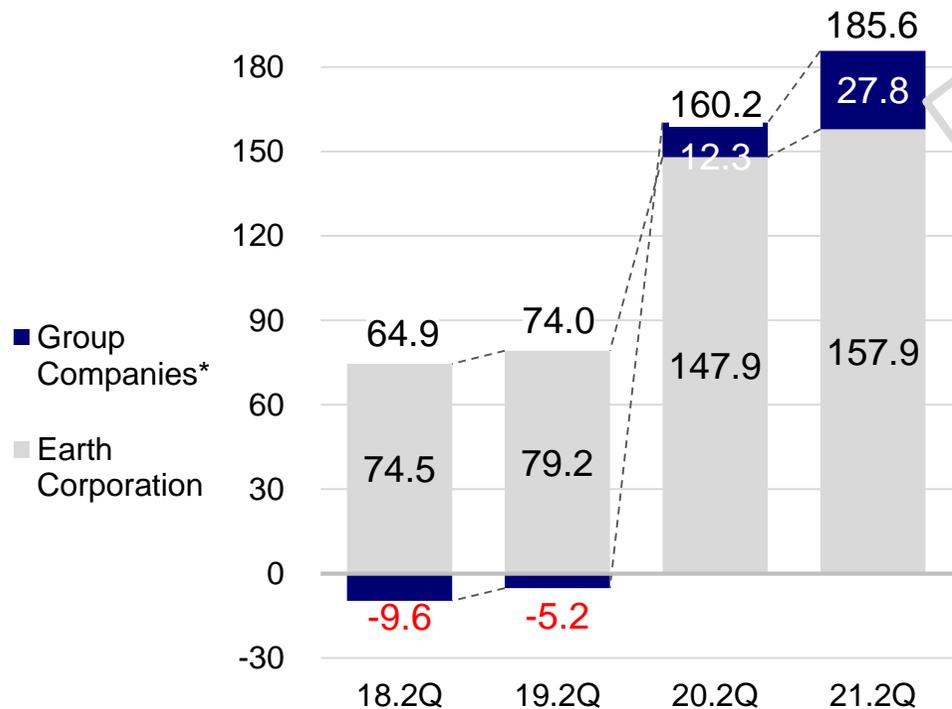


Improvements to the Profit Structure: Results Contribution of Group Companies

(Unit: 0.1 billion JPY)

- While the Earth Corporation remains the core of our business, we seek to create several profit sources and adapt to changes in the business environment
- A strong performance from Group Companies made a significant contribution to an increase in consolidated operating income

Operating Income



Main Factors

【BATHCLIN】

- Robust sales of bath salts – exceeding the forecast
- Optimization of inventory shipping times

【Hakugen Earth】

- Captured continued demand for masks and kept SG&A expenses at adequate levels

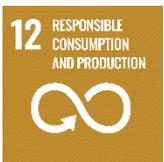
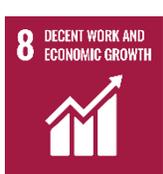
【Overseas】

- Steady improvements to the profit structure

ESG : Contribute to SDGs / Promotion Framework

- Proceed with the identification of materialities, based on SDG themes our company is focusing on, within the scope of addressing the social issues we believe need to be tackled
- Position the promotion of sustainability as a key management focus and enhance coordination among Group companies

SDG Themes in Focus

 <p>3 GOOD HEALTH AND WELL-BEING</p>	<ul style="list-style-type: none"> • Contribute to the elimination of insect-borne infectious diseases through insecticides and repellents (SDG 3-3) • Contribute to oral hygiene by promoting the widespread use of oral care products (SDG 3) 	 <p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	<ul style="list-style-type: none"> • Reduce product returns in order to reduce waste (SDG 12-5) • Oversight of chemical substances in a way that is beneficial to the environment and health throughout the lifecycle of products (SDG 12-4)
 <p>13 CLIMATE ACTION</p>	<ul style="list-style-type: none"> • Reduce CO2 emissions at our factories, offices, and in distribution (SDG 13-1) • Enhance the resilience of our business against natural disasters (SDG 13-1) 	 <p>5 GENDER EQUALITY</p>	 <p>8 DECENT WORK AND ECONOMIC GROWTH</p> <ul style="list-style-type: none"> • Create rewarding work / workplace (SDG 8-5) • Promote diversity (SDG 5-1, 5-5, 8-5)

Framework to Promote Stability

In this framework, management is deeply involved in the promotion of sustainability



ESG : Corporate Governance Reform and Initiatives Going Forward



- We started carrying out Corporate Governance reform in 2015. Since then, we have made steady progress in this area.
- Going forward, we will be executing further initiatives towards increasing corporate value

Measures Implemented to Improve Governance

2015	• Started Governance reform
2016	• Adopted a structure with two Outside Directors
2017	• Began evaluating Board effectiveness
2018	• Changed the number of Directors to 10; Shortened tenure to 1 year
	• Introduced Executive Officer system with the aim of speeding up management decisions
	• Introduced restricted stock compensation
	• Divested of strategic shareholdings → Reduced cross-shareholdings
2019	• Board of Directors diversity (Nationality / Gender)
2020	• Improve liquidity through equity measures
2021	• Formulated a “Policy on the Determination of Individual Director Remuneration”
	• Established a CG Promotion Committee
	• Established a Sustainability Promotion CMTE

Main Issues the Company is Currently Tackling

- **Achieve a structure with 1/3 Independent Outside Directors**
- **Even greater transparency in the Management nomination/remuneration decision process**
 - Establish Nominating / Remuneration Committee with strong execution capabilities
 - Formulate a skill matrix for the Board of Directors
- **Deepen our commitment to sustainability**
 - Formulate a sustainability vision
 - Identify materialities
 - Set non-financial KPIs
- **Address TCFD**

Topics !

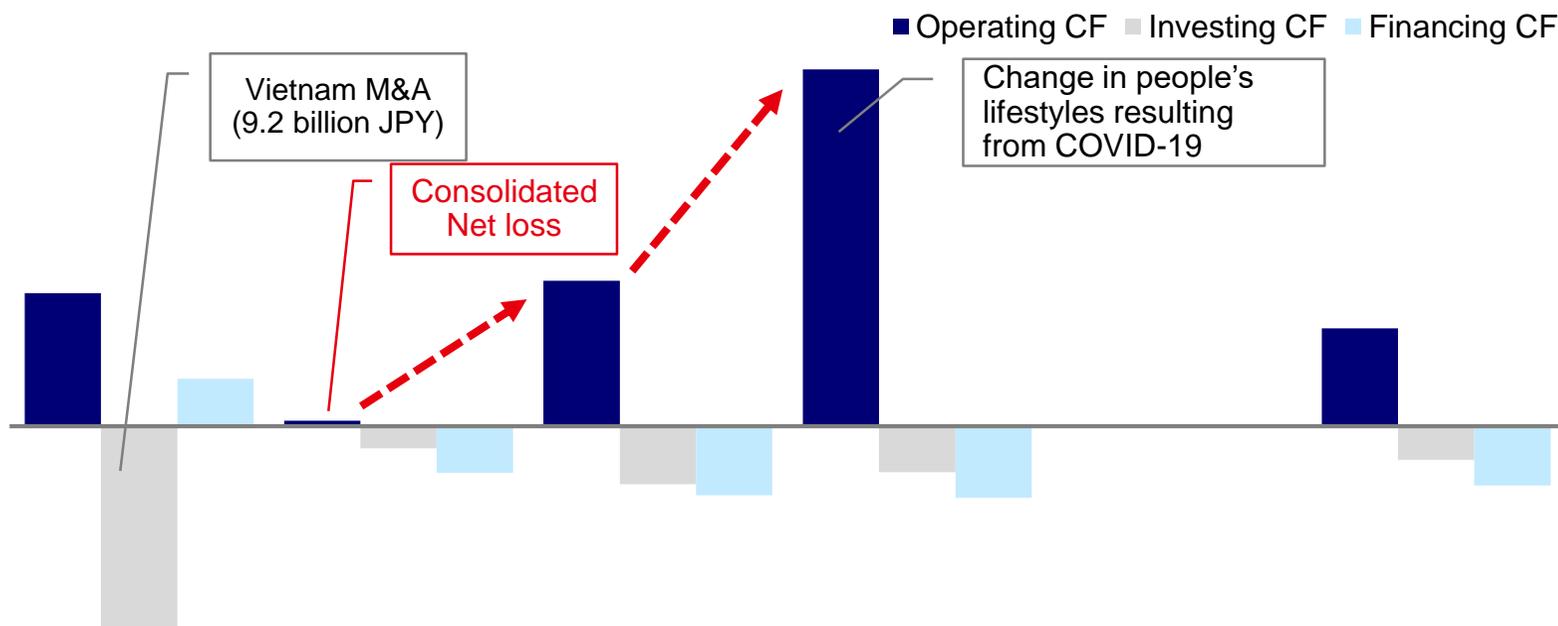
- Results of 1st evaluation of continued listing criteria : **No impediment to listing on Prime Market**
- **Ranked 60th** in the Weekly Toyo Keizai's* **SDG ranking of 500 companies!**

Financial Condition : Free Cash Flow Trends



(Unit: 0.1 billion JPY)

■ Raise our “earnings power” and generate stable free cash flow



	2017.4Q	2018.4Q	2019.4Q	2020.4Q	2021.2Q
Free Cash Flow	- 48.2	- 11.4	60.3	214.2	44.2
Operating CF	91.7	3.6	100.2	245.9	67.2
Investing CF	-139.9	-15.1	- 39.9	- 31.6	- 23.0
Financing CF	32.6	- 32.0	- 47.6	- 49.3	- 40.8

Financial Condition : Outlook of Future Investment / Financing Plan



(Unit: 0.1 billion JPY)

- We intend to pro-actively carry out capital investment exceeding depreciation (Enhance production; improve production efficiency at major categories)
- Aim to secure investment profitability, by establishing hurdle rates for each investment project, based on regions and risks

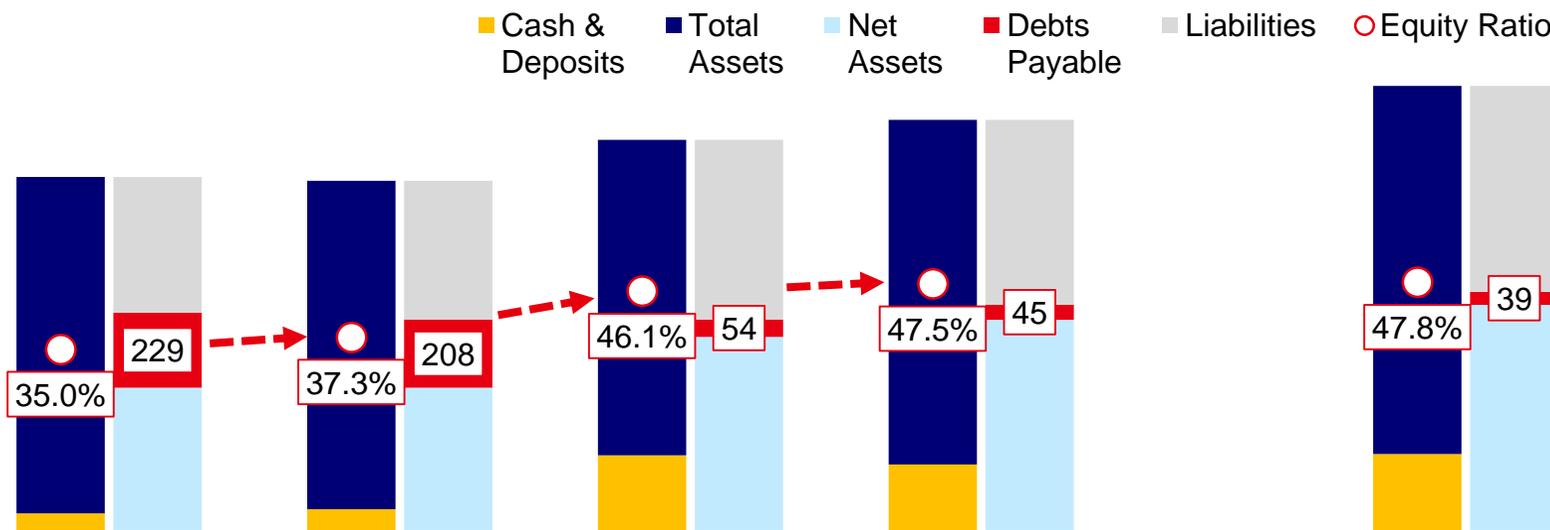
		2020 Results	2021 Estimate	2022 Forecast	2023 Forecast	Reference
Operating Plan	EBITDA	172	173	178	185	
	(EBITDA Margin)	8.8%	8.6%	8.7%	8.7%	
Financing	Net Increase / Decrease in Borrowing	- 153	- 10	- 12	0	
	Equity Measures	126				2020 : Financing via issuance of stock acquisition rights
Resource Allocation	Corporate Income Tax	- 26	- 39	- 44	- 46	
	Capital Investment	- 35	- 40	- 60	- 60	Enhance production / improve efficiency at major categories
	IT Investment		- 10	- 15	- 15	Revamped Core System
	M&A				- 70	7 billion yen in 3 years; Target ASEAN
	Working capital; Others	54	- 75	- 47	6	2020: Grew closing inventory → Increase in accounts payable
	Dividends (LFY)	- 20	- 25	- 25	- 25	Premised on maintaining dividends at 115 yen/share
	Retained Earnings	15	52	70	79	
	Equity Capital	553	605	674	753	
	DOE	5.3%	Distribute dividends while aiming for a DOE of 4 - 5%			

Financial Condition: Financial Foundation Target



(Unit: 0.1 billion JPY)

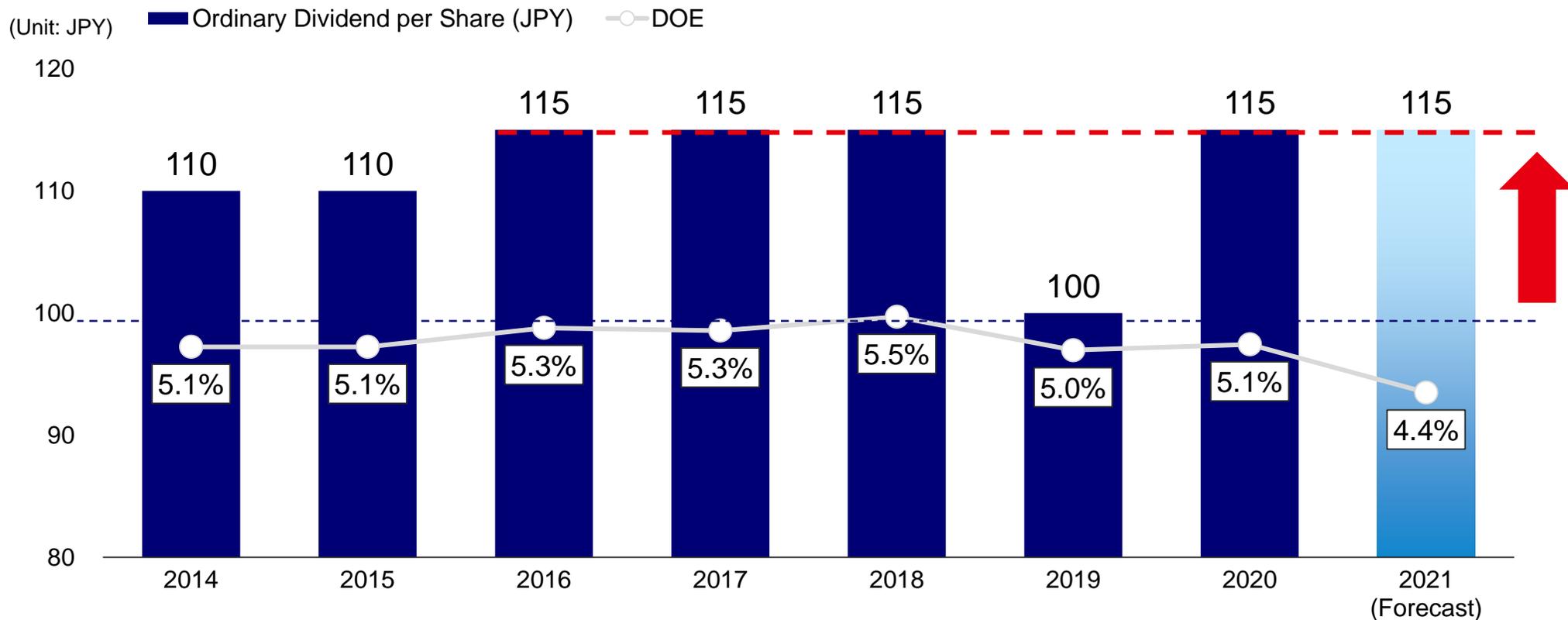
- Medium/Long-term KPI Target : **Equity Ratio of 45% - 50%**
- Simultaneously achieve “Business Growth” and “Maintain Financial Soundness” through the adequate allocation of resources



	2018.4Q	2019.4Q	2020.4Q	2021.4Q (Forecast)	(Ref.) 2021.2Q
Equity Ratio	35.0%	37.3%	46.1%	47.5%	47.8%
Debt / EBITDA	3.32x	1.98x	0.31x	0.26x	
ROE	-0.3%	3.1%	7.4%	13.3%	
CCC	28.1 days	30.4 days	20.7 days	20.0 days	
Cash / Total Assets Ratio	5.6%	6.8%	19.8%	16.7%	17.7%

Shareholder Returns

- Target a Dividend on Equity Ratio (DOE) of 4 - 5%
- We forecast a dividend per share of 115 yen; a DOE of 4.4%; and a consolidated dividend payout ratio of 33%



Improving the Earth Group's Corporate Value

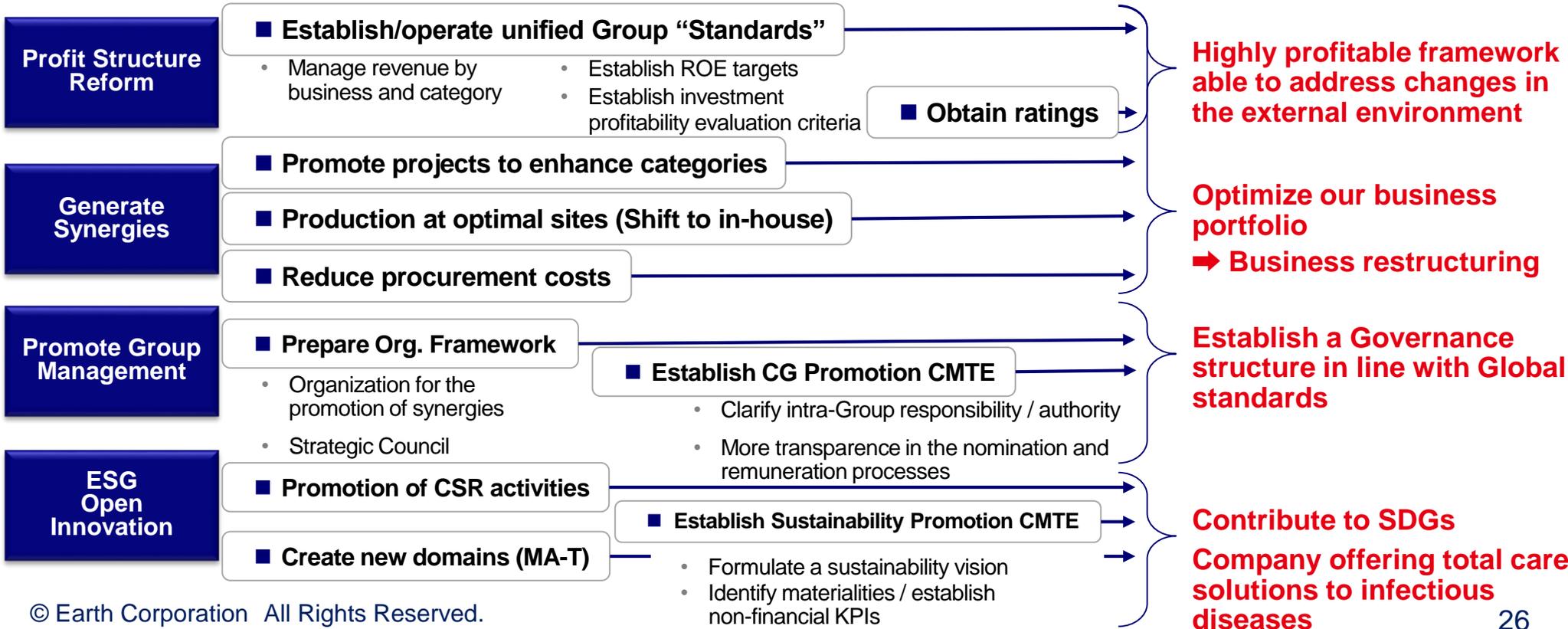


- Unlock Group Synergies involving production and procurement in optimal sites, from the perspective of reform to the profit structure and an improvement in capital efficiency
- Going forward, we will seek to increase the speed of strategic deliberations/decision-making, with the aim of carrying out business reform and establish a Governance structure in line with Global standards – towards the execution of the Group's overall strategy, such as initiatives to optimize our business portfolio and ESG initiatives

Initiatives through to 2020

Initiatives from 2021 onward

Medium-to-Long-Term Vision





EARTH

Act For Life

This presentation contains forward-looking statements and financial results forecasts. These forward-looking statements and financial results forecasts were formulated on the basis of company assumptions based on the information available.

These statements and forecasts are subject to risks and uncertainties that could cause actual results to differ materially from those described.