Earth Corporation

Earnings Briefing Materials for FY2023 and the New Mid-term Business Plan

Summary of questions and answers

[Restructuring/restructuring expenses]

Q：The plan reflects the costs related to the restructuring of the medium-term plan in operating profit. Does this plan include the possibility of extraordinary losses in the future, or is the company considering the possibility of significant extraordinary losses around the year 2025?

A：Expenses included in SG&A in the plan mainly include consultancy costs related to structural reforms and promotional costs to dispose of backlogged inventories. Extraordinary losses are not included in the plan for the current financial year, but may occur depending on future initiatives.

Q：I consider bath salts and oral hygiene to be difficult markets to fight with the same strategy, as the market conditions are different. In the oral hygiene market in the broad sense, not just mouthwash, there are still new entrants, but we believe that category expansion and product expansion (i.e. volume expansion) can be achieved. On the other hand, the bath salts market is actually almost an oligopoly of two companies. In an oligopolised market, the top manufacturer does not sell at a lower price, and Earth Corporation's price is lower, so I think we should specialise in increasing our profitability. What you will be working on in bath salts and oral hygiene is likely to be different, but could you supplement the strategic aspects to the extent possible?

A：You are correct. Based on our analysis of the current situation, taking into account the market size, the Company has positioned bath salts and oral as a category to 'concentrate' on in our selection and concentration. In the bath salts market, we do not believe that we are at the stage of forcibly capturing market share in a situation where demand, which expanded after CODIV-19, has fallen off. I think it is necessary to fight firmly against competitors, but when we look within the Group, we see similar situations where we are doing the same things. We consider it a challenge to sort out this part of the business. On the other hand, the oral hygiene division needs to review the Mondahmin brand, which has been around for over 30 years, while recognizing its relationship with GSK. We are supported by users who like Mondahmin and use it, but the reality is that new users are flowing to other companies. We therefore intend to invest in developing new target groups.

Q：The SG&A ratio in the 2026 performance plan is planned to increase: what and how much of the restructuring costs are expected to be incurred over the course of 26 years?

A：This includes things like consultancy costs, promotional costs related to the disposal of backlogged inventory, new costs incurred in the course of the Group's restructuring, and provisions for losses related to the withdrawal from unprofitable categories and locations. We cannot give a clear answer as to how much will be incurred at what point in time, but please assume that the level of ¥1.5 billion will continue.

Q：Is there a possibility that the difference between the restructuring fund of 5-6 billion yen and the estimated amount up to 26 years (1.5 billion yen x 3 years) as stated on page 33 of the document may be recorded as a non-operating (extraordinary loss)?

A：We cannot give you a clear answer, but we would like you to see it as such.

Q：The costs related to the Group's restructuring seem low. In addition to the plans currently foreseen, are there any one-off costs that may arise in the next or next financial year?

A：All costs currently foreseen have been factored into the plan.

Q：Will there be costs equivalent to the current year's restructuring costs of ¥1.5 billion next year and the year after?

A：We assume that the restructuring costs will be reduced in stages. We expect to complete the restructuring in the current and next financial year, as we expect to accomplish the restructuring as soon as possible. However, in our plans, we are planning to record some costs in FY26 as well.

Q：Will the disposal of backlogged stock be completed in 2024? And how much will it cost in concrete terms?

A：It is assumed that the disposal of some products will take until the next financial year, so costs related to this have also been included in next year's plan. Specific costs are not disclosed.

Q：Will it continue to suffer over the next 25 years, as illustrated in the diagram on page 27 of the document (page 40)?

A：At present, we are planning for performance in 2025 to be at the same level as in 2024, but depending on the timing of the implementation of price revisions for household products, there is a possibility of a swing to the upside. Originally, we would like to complete the structural reforms in about one year. However, the initiatives for the part of selection and concentration that corresponds to 'selection' will require a period of about two years. Therefore, the curve is as shown in the document, and we will complete the initiatives in two years.

Q：It is inferred that domestic sales growth during the mid-term plan period is only expected to be in the low single digits. What are the reasons for the low growth rate of domestic sales, given that the strategic plan is to reduce the number of SKUs while actively growing the bath salts and oral hygiene sectors?

A：The growth rate is low because of strategic reviews and withdrawal considerations in some categories etc.

[Performance plans for 2024 and beyond]

Q：The plan for SG&A expenses in 2024 shows a planned increase of 1.6 billion in investment in human resources. Is the increase related to the government's request for higher wages, or is it purely due to an increase in personnel?

A：There is some increase in staffing, but the increase is due to an increase in labor costs due to fixed salary increases, i.e. wage increases.

Q：Will the level of investment in human capital remain at 1.6 billion in the future?

A：The historical trend in costs related to investment in human capital has been an annual increase in the billions of yen range. We do not consider this to be an outstandingly high level. However, at the moment we cannot say for certain that the increase will continue at this level in the future.

Q：What are the reasons for the planned decline in gross margins, despite the price revisions planned in the 2024 performance plan?

A：This is because of the disposal of backlogged stock.

Q：What are the changes in the gross margin over the period to 2026? On page 42 of the document, there is a description of the overall gross margin. Would you please explain the changes in gross profit margin by breaking it down into the individual sectors?

A：We will refrain from answering about the transition that has been put into each sector. However, we will carry out selection and concentration in the household products category. We hope to realise the price revision associated with the strengthening of the brand here as soon as possible, and we assume that the gross profit margin for household products will improve. The gross profit margin for insect care products appears to be falling in the 2024 performance plan, but we will naturally work to increase it here as well. So we are planning to increase the level of profit in the domestic market.

Q：What are the gross margin assumptions for Insecticides & Repellents and household products in 2026?

A：It is assumed that Insecticides & Repellents will improve by several percentage points to the 2021 level, while household products will improve by several percentage points as a result of the initiatives being implemented.

Q：What are your assumptions for operating profit and operating margin in 2025? What assumptions do the company make if one-off costs related to restructuring are eliminated?

A：Figures for FY2025 are not disclosed; please consider them as equivalent to FY2024.

Q：If operating profit and operating margin in FY2025 are at the same level as in FY2024, does this mean that one-off costs related to structural reforms will still be incurred in FY2025?

A：The company expects to incur one-off costs related to restructuring costs within the next three years, starting in 2024. Therefore, we assume that the same amount of costs will be incurred in the current and next financial year.

Q：What is the planned depreciation and amortisation for the period 2024-2026 in terms of the EBITDA transition?

A：The plan is for IT investment and depreciation of capital expenditure to be recorded until 2023. From this year onwards, we will proceed with our inventory reduction plan, so we expect our operating cash flow to improve in the range of 5 to 2 billion yen per year. Basically, we expect EBITDA to remain at the same level in 2024 and 2025, and to increase from 2026 onwards in line with higher profits. We do not currently foresee any significant impairments and write-offs within the three-year period.

[On overseas operations]

Q：I understand that you expect your overseas business to continue to grow during the mid-term plan period, but what are your plans for growth rates in each area? Also, what is your operating profit plan for each area?

A：Growth in Thailand and Vietnam is assumed to be up 15% by 2026. The Philippines and Malaysia are in the process of reviewing their sales channels and are expected to increase by around 10% by 2026. Another area currently performing well is export-related, with growth of more than 20% by 2023. We export the Company's products to about 50 countries, including North America and the Middle East, and this is growing, and is expected to increase by 10-20% in the future. Our basic course is to grow our ASEAN subsidiaries while developing new countries and growing our export business. The operating margin is expected to remain at an average of 5%. While growth in Japan will slow down due to structural reforms, we believe that overseas operations will drive profit growth during the mid-term plan period.

[Others]

Q：Is there any impact on your performance due to bed bug-related issues, which I assume you have started to promote with your own products from February 2024, and what can we expect?

A：The Company has some new products in the pipeline that it can introduce as its own products, which we expect, but we have not factored them into our plans. We only expect this to be a positive factor.

Q：Is there any demand for insect care products from companies and industries involved in BtoB business? We believe that demand will grow in the future, partly due to warmer weather.

A：Due in part to global warming, year-round insect infestations and the invasion of pests from overseas, we are receiving enquiries from companies and others involved in the accommodation industry, including bedbugs. Originally, we had a department that dealt with BtoB, but last year we reorganised and set up the Sales Channel Strategy Headquarters to further strengthen our BtoB business. We are reorganising our organization and trying to actively develop various sales channels. We are also about to launch new products, which we will actively develop. However. This has not been factored into our current plans.

Q：Looking at the situation at other companies, prices for deodorizing air fresheners have been rising since last autumn, including a focus on value-added products. We feel that there is room to increase the value of your deodorizing air freshener products, but what is your strategy for deodorizing air fresheners?

A：The company is considering revising the prices of value-added products. We will probably add value-added products instead of existing products. In addition, existing products of deodorizing air fresheners will be subject to selection and concentration. There are major competitors in this category and it is difficult for us as the third largest manufacturer to take the initiative in revising prices. In the current fiscal year, we will probably follow the trends of other companies. Looking at the situation at other companies, we are aware that we have entered a stage where price revisions are easier. For the Company, a price revision would lead to a slight improvement in earnings, but more than that, we recognize that we are now at the stage of selection and concentration in this category.