# Earnings briefing materials for 1Q of the fiscal year ending December 2024

05/10/2024

アース製薬株式会社

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EARTH
Act For Life

# Financial Result Highlights of FY 12/2024.1Q

Before I explain our business performance, I would like to disclose three items today: 1Q financial results, 1Q earnings presentation materials, and dividend forecast revision.
In 2025, we will celebrate the 100th anniversary of our establishment. We would like to take this opportunity to express our deepest gratitude to everyone involved in the capital market who is here today, as well as to the many others who have contributed to this milestone year, which also marks the 20th year since our listing.
As an expression of our gratitude, we have decided to pay a commemorative dividend of 2 yen per share for the year-end dividend, and as a result, we would like to reiterate that we will pay a year-end dividend of 120 yen per share for the current fiscal year.
I will now explain our business performance for the first quarter of 2024.

# Financial Result Highlights

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(Unit: 0.1 billion JPY)

- Sales increased by 1.23 billion yen and Operating Income decreased by 0.55 billion yen from the PY.
- Overall sales were almost in line with the Forecast, although there were some fluctuations in sales by category. Operating Income was significantly higher in 1Q due to lower COGS and SG&A expenses.

| | 23.1Q Realized | | 24.1Q Forecast | | 24.1Q Realized | | Comparison | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | Composition ratio | Amount | Composition ratio | Amount | Composition ratio | Diff VS PY | YoY | Diff VS Forecast | VS Forecast |
| Sales | 408.1 | 100.0% | 420.0 | 100.0% | 420.4 | 100.0% | 12.3 | 103.0% | 0.4 | 100.1% |
| COGs | 230.6 | 56.5% | 247.4 | 58.9% | 238.5 | 56.7% | 7.8 | 103.4% | ▲ 8.8 | 96.4% |
| Gross Profit | 177.5 | 43.5% | 172.5 | 41.1% | 181.9 | 43.3% | 4.4 | 102.5% | 9.3 | 105.4% |
| SG&A Expenses | 122.2 | 29.9% | 144.5 | 34.4% | 132.1 | 31.4% | 9.9 | 108.1% | ▲ 12.4 | 91.4% |
| Operating Income | 55.3 | 13.6% | 28.0 | 6.7% | 49.7 | 11.8% | ▲ 5.5 | 90.0% | 21.7 | 177.8% |
| Ordinary profit | 56.4 | 13.8% | 29.0 | 6.9% | 51.4 | 12.2% | ▲ 4.9 | 91.2% | 22.4 | 177.5% |
| Net Income attributable to owners of parent | 38.8 | 9.5% | 21.0 | 5.0% | 35.3 | 8.4% | ▲ 3.5 | 90.8% | 14.3 | 168.1% |





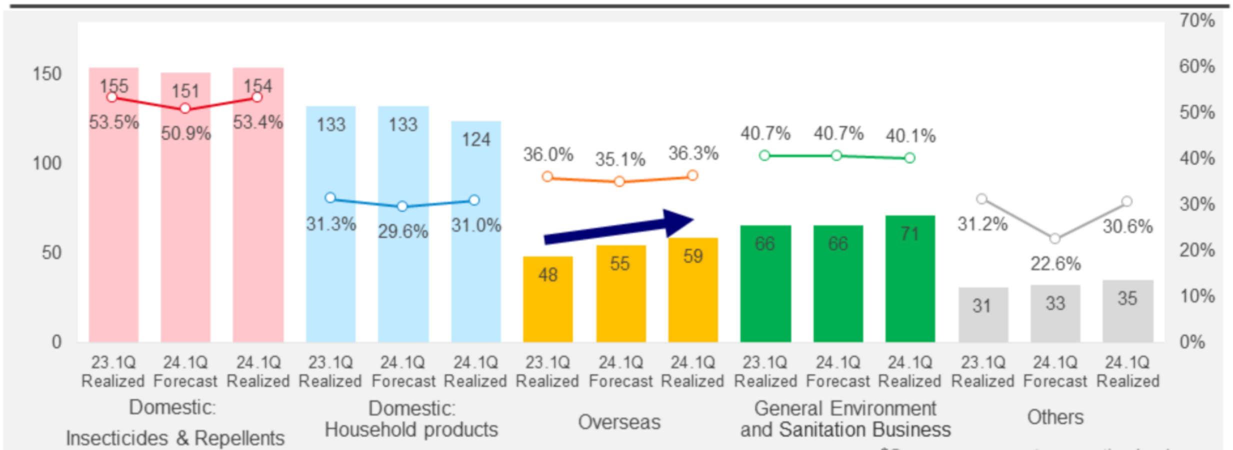
Here are the 1Q performance highlights.
Net sales totaled 42.04 billion yen and operating income was 4.97 billion yen.
Compared to the previous quarter, net sales were up 1.23 billion yen and operating income was down 550 million yen, resulting in higher sales and lower income.
On the other hand, compared to the budget, overall net sales were almost in line with the plan, although there were some category differences.
In addition, operating income was significantly higher as of 1Q due to lower-than-planned cost of sales and SG&A expenses.

# Management Accounting Basis: Sales / GPM (23vs24)

(Unit: 0.1 billion JPY)

- Domestic Insecticides & repellents : Flat YoY, in line with Forecast.
- Domestic Household products : Bath Salts and Oral Care fell short of the PY and Forecast.
- Overseas : Both ASEAN and China performed strongly in 1Q.
- General Environment and Sanitation Business : Continued stable growth.

Sales / GPM by Portfolio

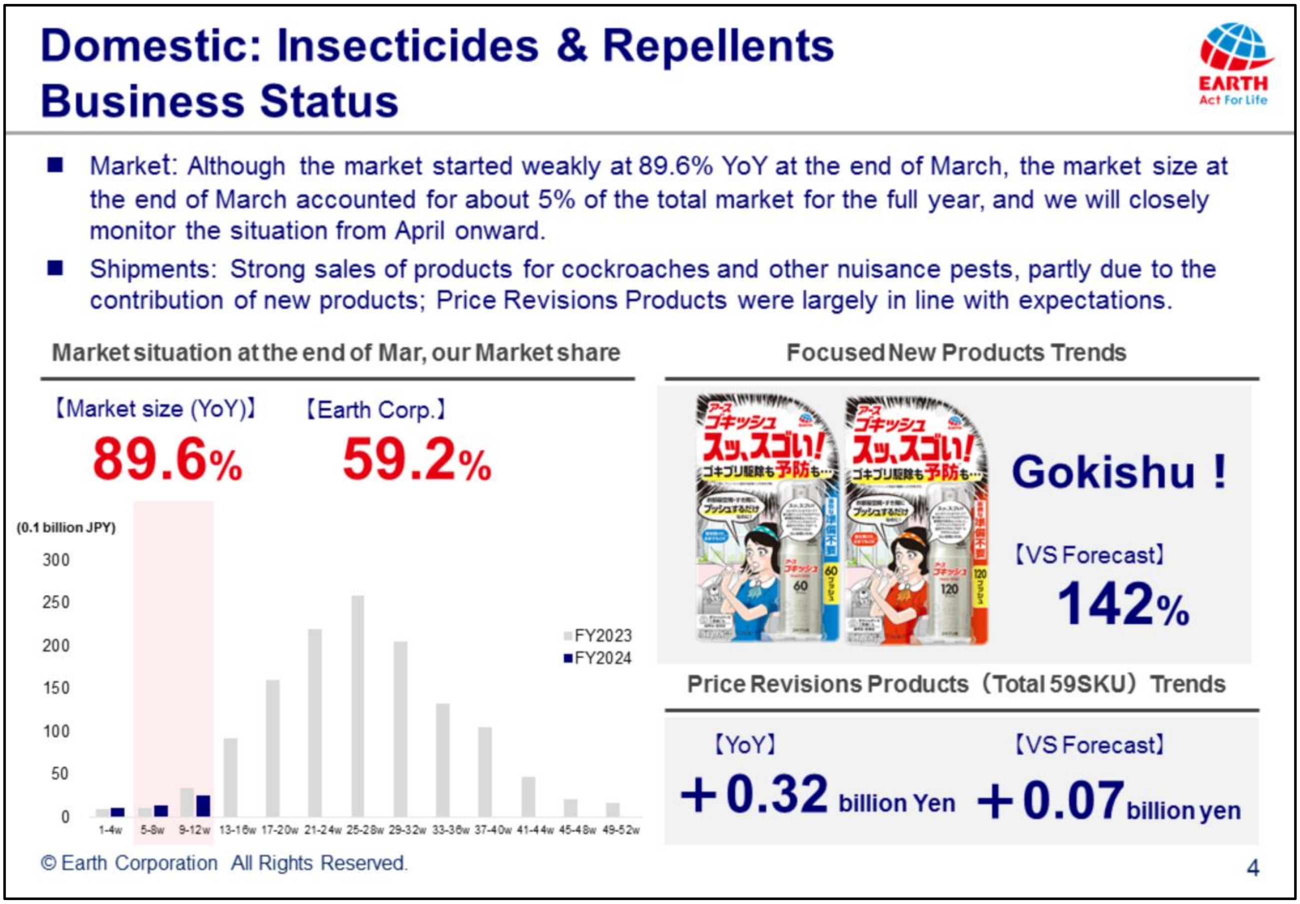





*On a management accounting basis. Consolidated adjustments, e.g., internal eliminations not included.



These are sales and gross profit margins on a managerial accounting basis. Since the last financial results briefing for FY2023, explanations have been provided in five segments: Domestic Insecticides & Repellents, Domestic Household Products, Overseas, General Environment and Sanitation Business , and Others.
Domestic Insecticides & Repellents (pink bar graph on the left) have remained flat year on year and are progressing as planned.
Domestic Household Products (second from left, light blue bar graph) continue to face a difficult situation. Sales of bath salts and mouthwashes that is core part of Household Products fell short of both the previous year and the plan.
On the other hand, Overseas (middle, yellow bar graph), both ASEAN and China are performing very well as of 1Q.
Also, General Environment and Sanitation Business (second from the right, green bar graph) continues to show stable growth.




This section discusses domestic insecticides.
As of the end of March, the market got off to a sluggish start, at 89.6% of the previous year's level. Although this figure alone may seem like a weak start, it is not a cause for pessimism, as the progress rate is only about 5%. In addition, favorable weather and other factors have actually contributed since April, and the market is currently significantly higher than in the previous fiscal year.
Under these circumstances, shipments of the new product “Gokishu!,” launched this fiscal year, have been strong, at 142% of the plan.
In addition, price revisions for 59 SKUs of insect care products were implemented this fiscal year, and these products are also off to a good start.

## Domestic: The Household Products Business Status

- Intensifying competition in Bath Salts and Oral Care, resulting in a decline in market share.
- Considering renewal of category strategies and reallocation of marketing investments to strengthen brand power as stated in the Mid-term Business Plan.

**Bath Salts**

【Market size (YoY)】 **102.6%**

【Earth Corp.】 **44.8%**

Trends in Core Products

- ONPO — Vs. forecast **93%**

- KIKIYU — Vs. forecast **75%**

**Oral Care**

【Market size (YoY)】 **102.0%**

【Earth Corp.(Mouthwash)】 **18.0%**

Trends in Core Products

- MONDAHMIN (regular) — Vs. forecast **93%**
- PREMIUM CARE — Vs. forecast **75%**





On the other hand, conditions for daily necessities have remained difficult since last year.
As stated in the medium-term business plan, I recently explained, we are currently considering revamping our category strategy and reviewing the allocation of marketing investments in order to strengthen our brand power going forward. I hope to be able to explain in more detail when we announce our financial results for the second or third quarter.

# Overseas: Business Status (ASEAN)

(Unit: 0.1 billion JPY)

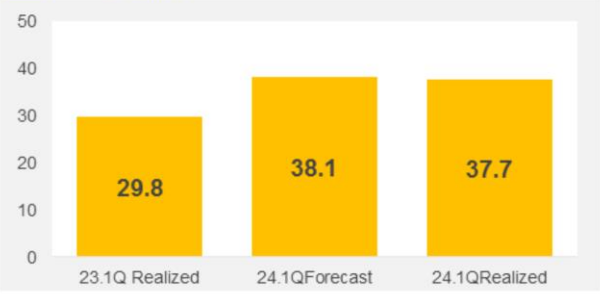
## ASEAN Core Area (Thailand & Vietnam)

**Thailand**

- Sales expansion in each domestic channel
- Depot expansion to cultivate the OP-T market, contributing to an increase in market share and number of deliveries.
- "ARS Mos shooter" Preparing for launch at the end of July.

**Vietnam**

- Achieved sales growth of GT +10%, MT +33%, contributed to growth of household detergents and Insecticides & Repellents , as well as the launch of a new clothing detergent product.
- Stabilize product selling prices and improve sales promotion efficiency by reviewing in-store sales promotion measures.



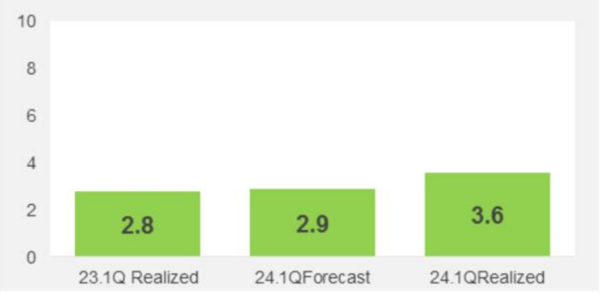

## ASEAN Expansion Area (Malaysia & The Philippines)

**Malaysia**

- Successful implementation of sales promotion measures led to substantial achievement of 1Q sales plan and narrowing of deficit.
- Further sales expansion through the introduction of new products as needed from 2Q onward.

**Philippines**

- Profitability improves as sales increase due to launch of highly profitable new products.
- Expanding distributor network and developing local B to B channels to build sales channels.



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This section discusses the overseas situation.
Overseas, including the next page, will be divided into four categories: ASEAN Core Area, ASEAN Development and Expansion Area, China, and Export Business.
First, let me explain the situation in the ASEAN Core Area. This area includes Thailand and Vietnam, both of which are growing steadily.
Especially in Thailand, sales are expanding in each domestic channel. We are currently expanding the number of depots in order to develop open trade (OP-T). These are contributing to an increase in market share and the number of deliveries. In addition, we are planning to launch "ARS Mos shooter" at the end of July in collaboration with Kao Corporation, which was recently announced. We are in the process of working hard toward the launch of the product.
In Vietnam, we are also doing very well, with a significant increase in sales of GT (+10%) and MT (+33%). In addition to growth in our household detergents and insecticides that is a core products, new products clothing detergents also contributed to sales.
Next, I would like to look at the situation in the ASEAN expansion area. This area includes Malaysia and the Philippines. Both local subsidiaries are performing well, exceeding the plan as of 1Q.

# Overseas: Business Status (China & Cross- border)

(Unit: 0.1 billion JPY)

## China

**Locally**
- Shift in strategy to expand sales in real stores.
- Achieved +30% sales growth in 1Q.
- Established priority items in Insecticides & Repellents products to promote distribution to the real market.

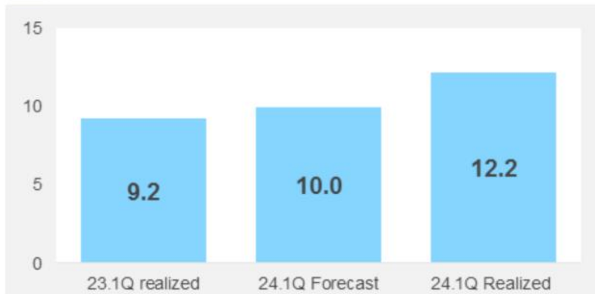
**Cross-border**
- Sales declined in reaction to the special demand in 1Q of the PY.
- Expansion of daily necessities such as Insect repellents for clothes and air fresheners.


## Cross border business

**ME**
- Expanding Insecticides & Repellents.
- Continued strong performance from the PY, with contributions from the introduction of new products in addition to the prior introduction of core products.

**Hong Kong**
- Mainly Insecticides & Repellents , Insect repellents and dehumidifiers.
- Revenues recovered from the PY's decline and achieved a significant increase in 1Q.

**Taiwan**
- Mainly developing Insecticides & Repellents.
- Stable sales growth with products that have gained brand recognition, such as fly and cockroach poison bait.





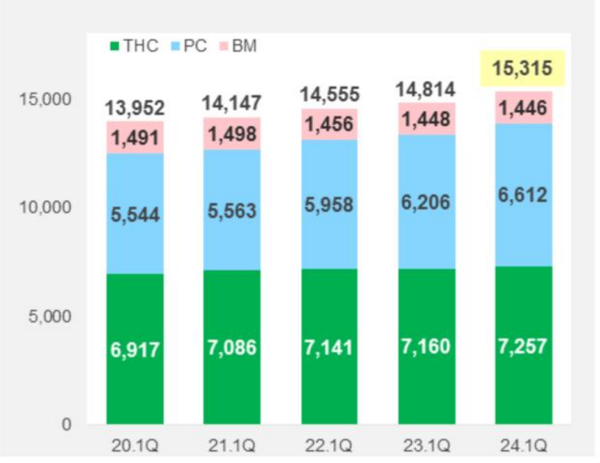



Next is the situation in China. (Left side)I think I mentioned at the last financial results briefing that the business environment in China was difficult. In response, we have been taking measures such as a shift in strategy to expand sales at real stores. Thanks to these efforts, we have achieved a 30% increase in sales over the previous year as of 1Q. Although we are not yet in a position to let our guard down in order to achieve our full-year plan, we will strive to expand sales by promoting the distribution of the priority items that we have set.
With regard to the export business, our expansion in the Middle East and Hong Kong has been very strong. (Right side)Especially as of 1Q, the Middle East, Hong Kong, and Saudi Arabia have been improving very much.

# General Environment and Sanitation Business : Business Status

- Steady growth in the number of contracts with increasing demand for high-quality hygiene management services, especially in food-related and pharmaceutical-related industries (+501 contracts YoY).

**General Environment and Sanitation Business – Trend in Annual Contract Numbers**




**General Environment and Sanitation Business Main Initiatives**

- **Initiatives for expansion into the regenerative medicine industry.**
- **Strengthen auditing and consulting services related to food safety management.**
- **Promotion of DX**
  Promote development of software that will help solve labor shortages and applications that can provide value to customers at the systems subsidiary.

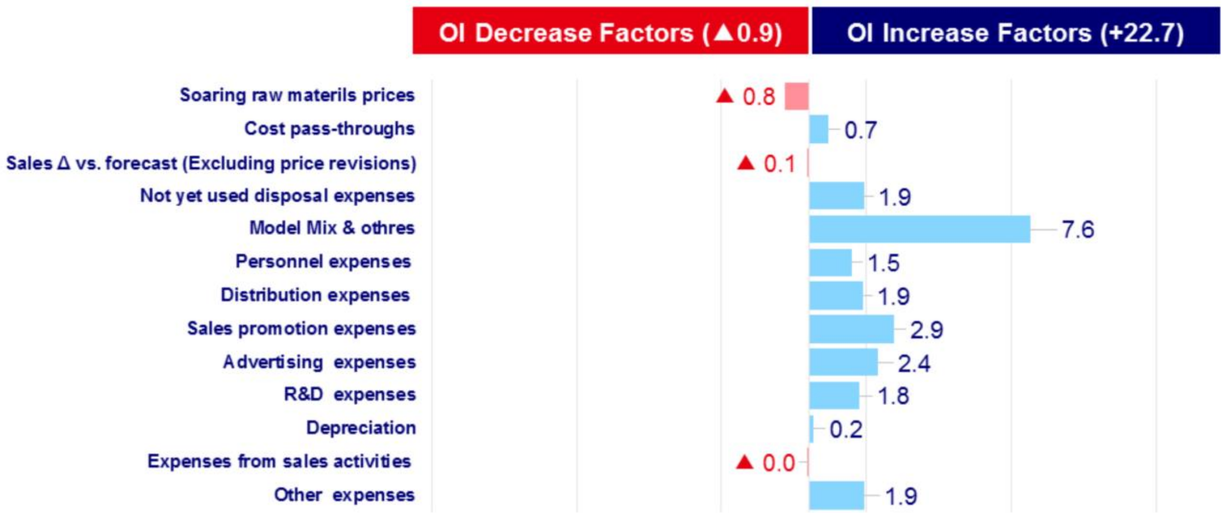



This section discusses the General Environment and Sanitation Business. The number of contracts continues to grow steadily. This is due to the very strong demand for high quality sanitation services, which has led to stable growth.

# Operating Income Change Factors (vs. Forecast)

(Unit: 0.1 billion JPY)

- Raw material price hikes remained within the scope of the initial forecast.
- Operating Income was significantly higher due to conservative estimation of COGS impact and unrealized expense budget as of 1Q.
- Expenses are expected to be fully offset from 2Q onward.



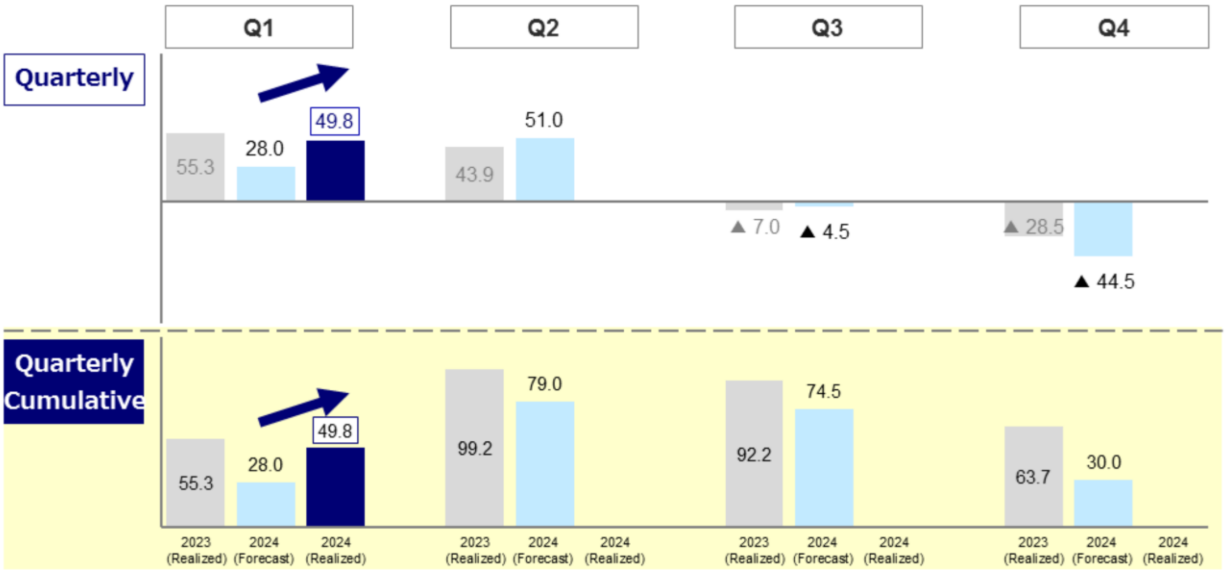

 

I would like to explain the factors behind the fluctuation of operating income against the plan.
This fiscal year, too, we expect to be affected by raw material prices hikes, although not to the same extent as in the past two years. Currently, there is a negative impact of about 0.08 billion yen on operating income, but this is mostly covered by the increase of 0.07 billion yen due to the effects of price revision measures.
In addition, the cost of sales was slightly conservatively estimated in the 1Q due to unaccounted-for disposal costs, and expenses such as sales promotion expenses, advertising expenses, and R&D expenses were unaccounted-for against the plan, resulting in a significant increase in profit.
However, we expect that expenses will be fully absorbed in the 2Q and beyond, so we believe that the actual increase in profit will be a little smaller than actual.

# Progress Toward The Operating Income Target (Quarterly / Cumulative)

(Unit: 0.1 billion JPY)

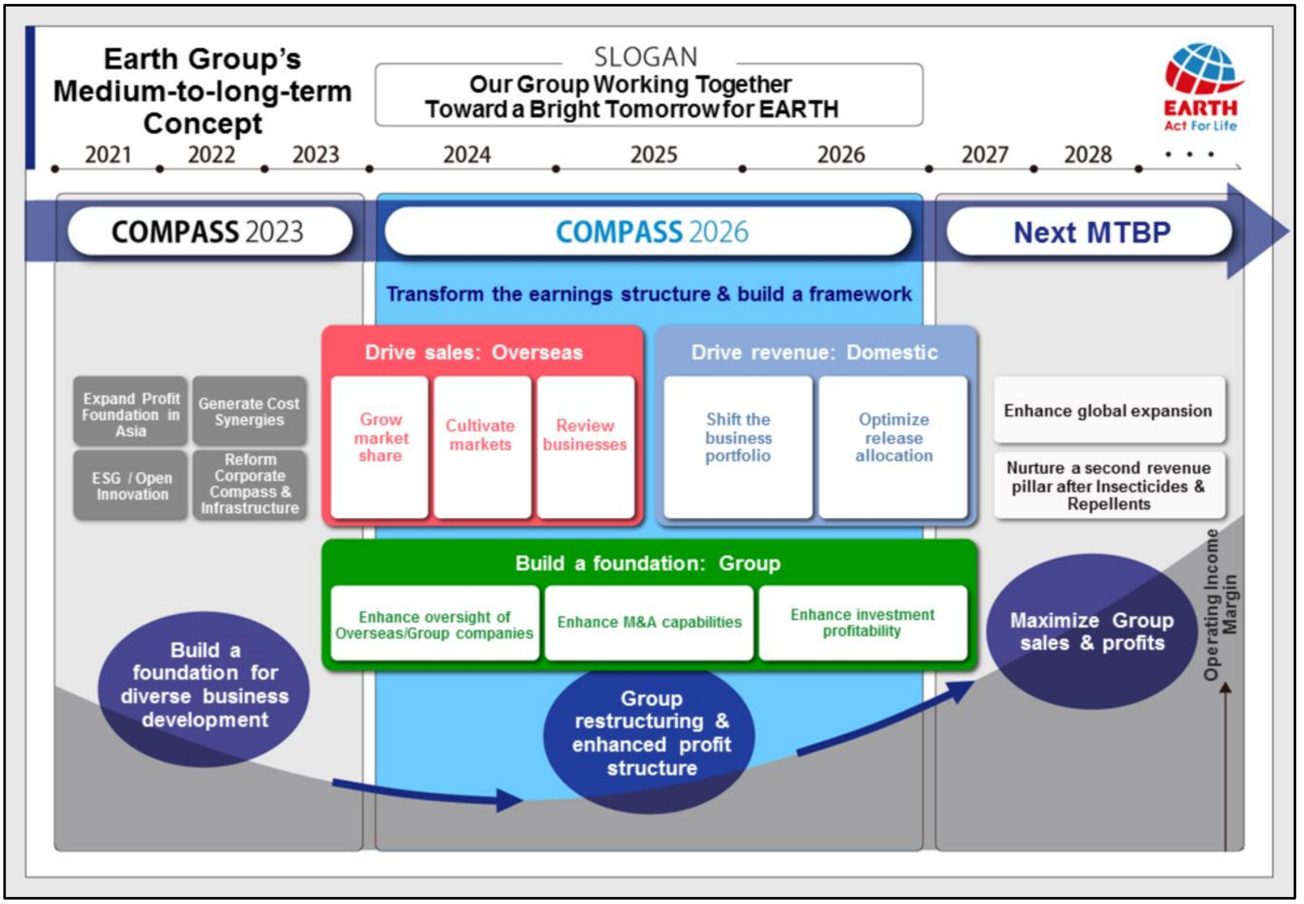
- The upward revision of the 1Q profit target was due to a conservative COGS estimation and an expense budget bias toward the first half of the fiscal year.
- Weather risk in Insecticides & Repellents , severe business environment in Household Products, and other factors will continue to be monitored closely in 2Q and beyond.








I would like to discuss the progress of operating income for the quarter.
At the 1Q stage, operating income was substantially higher than planned, but as I explained earlier, the actual increase in profit will be a little smaller, and we are cautious at this time in light of the risks involved in the 2Q and beyond.




I would like to briefly touch on the progress of the medium-term business plan that I explained the other day.
The three pillars of the medium-term business plan are Expand sales overseas, Transform the earnings structure, and Group restructuring .The Expand sales overseas, is as I explained earlier.
I will explain the Group restructuring in the 2Q and beyond.
Therefore, I will explain the Transform the earnings structure on the next page.

## Progress Toward The Profitability Structural Transformation

- **SKU reduction：**
  - As part of the category strategy renewal, selecting the number of SKUs to be reduced.
  - List is being prepared to achieve the 30% reduction target.
- **Cash efficiency improvement due to inventory reduction**
  - Inventory reduction from the second half of the previous year and renewal of the core system resulted in a significant inventory reduction of 5.0 billion yen YoY as of 1Q.
  - Debt burden was reduced by 4.0 billion yen, securing debt capacity for investment in growth.
- **Hedge against foreign exchange risk**
  - Hedged against downside risk of profit by using foreign exchange forward contracts in response to the rapid depreciation of the yen.





First, with respect to SKU reduction, as part of the category strategy renewal, we are in the process of narrowing down the candidates for SKU reduction, and are in the process of compiling a list for the 30% SKU reduction target.
Next is the improvement of cash efficiency through inventory reduction. Inventory reduction from the second half of the previous year and the core system, which was revamped and has been in operation since January 2024, resulted in inventory reduction of 5.0 billion yen compared to the first quarter. This has also reduced the debt burden by 4.0 billion yen, contributing to securing debt capacity for future growth.
In addition, we will also use foreign exchange forward contracts as a risk hedge in response to the recent rapid depreciation of the yen.

# 2024: Plan Highlights

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- No change from the figures announced on February 13, 2024.
- One-time expenses incurred in promoting structural reforms, aggressive investment in human resources, and aggressive investment in focused categories. (Bath Salts and Oral Care, which will be the next revenue sources)

(Unit: 0.1 billion JPY)

| | 2024 Plan | Highlights | 2023 Realized |
|---|---|---|---|
| Sales | 1,650 | • We forecast sales growth in all 5 classifications within management accounting.<br>• Plans to execute price revisions in Insecticides & Repellents in Japan this fiscal year, as well. | 1,583 |
| Gross Profit | 658.3 | • Expected COGS impact from soaring raw material prices of 1.1 B yen.<br>• Profitability impact for Domestic Insecticides & Repellents and Household products. | 636.2 |
| SG&A Expenses | 628.3 | • This FY we expect 1.5 B yen in expenses related to structural transformation.<br>• We expect +1.6 B yen in human resources investment and +1.1 B yen in investment in nurturing our brand. | 572.5 |
| Operating Income | 30.0 | • Temporary profit decrease due to structural transformation. | 63.7 |
| Net Income attributable to owners of parent | 17.9 | • We expect non-operating income and expenses in line with last year.<br>• We don't expect large extraordinary income and loss items. | 41.0 |
| ROE | 2.7% | • Due to a temporary decrease in profitability. | 6.3% |




Finally, I would like to discuss our plan for the current fiscal year.
At this point, there is no change from the plan announced on February 13.As of 1Q, operating income was significantly above the plan. However, while we expect that the business will continue to do well in the 2Q and beyond, there are weather risks for insecticides, a difficult business environment for daily necessities, and the use of unused expenses, so we remain cautious at this point and will focus on achieving the profit target of 3 billion yen.

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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.

This concludes the explanation of first quarter results. Thank you.