Earth Corporation
Earnings Briefing Materials for the Fiscal Year Ended December 2024
Summary of questions and Answers

【Results of FY2024、Forecast of FY2025】

Q: (Slide 20) Please tell us the breakdown of the cost reductions and price revision effects for 2024 and 2025.

A: In 2024, we achieved cost reductions of 500 million yen and price revision measures of 2.22 billion yen. At this point, we are assuming that cost reductions in 2025 will be 460 million yen and price revision measures will be 1.8 billion yen. Price revision negotiations are progressing without problems, but we are also considering the risk of a downturn in the weather in 2025.

Q: Of the cost reductions, if you divide the variable and fixed costs for 2024 and 2025, how much would each be? Since there is also the closure of a factory, is a reduction in fixed costs also expected?

A: The cost reductions mentioned above (500 million yen in 2024 and 2.22 billion yen in 2025) are mainly on the manufacturing cost side, and there is a large variable cost component. Please be aware that the variable cost component is overwhelmingly large in our manufacturing costs, and that cost reductions in variable costs are making a significant contribution. These cost reductions and price revisions are leading to an increase in the gross profit margin.

Q: Is the price revision not simply a response to the impact of soaring raw materials hike, but also price increases due to the addition of high value? Is the price revision of 1.8 billion yen in 2025 due to the impact of soaring raw materials hike?

A: For new products, the emphasis is on adding value, while for existing products, the emphasis is on price revisions. Basically, even if the price is raised for products that are the exact same as last year's, consumers will not accept it, so some kind of value must be added. I think that other companies will also be promoting price revisions while adding some kind of value.

Q: How much growth do you expect in the domestic insecticides and repellents market in 2025?

A: We expect it to remain flat.

Q: (Slide 28) Please explain the background to the 2025 forecast Highlights. There is an increase in one-time expenses, but is it correct to assume that there will be an increase in revenue and other factors, resulting in operating income of 6.5 billion yen?

A: That is correct. If there were no one-time expenses such as the 100th anniversary costs or structural reform costs, we believe that operating income for this fiscal year would be more than 6.5 billion yen.

Q: Could you give us more details about the 1.5 billion yen in structural reform costs?

A: We are anticipating costs related to systems and resource allocation, etc. associated with the integration. However, as this figure includes costs that have not yet been finalized, we would like you to understand that it is the maximum amount we have estimated. As each cost will be finalized in the future, we cannot say for certain whether the 1.5 billion yen will be incurred as of today. However, we would appreciate it if you could understand that we have estimated the maximum amount of costs when considering the 2025 forecast.

【About the forecast of FY2026】

Q: (Slide 24) Won't you change the operating profit target of 7 billion yen for 2026? Once the one-time expenses are gone, it is estimated that operating profit will be more than 7 billion yen. What should we think about the forecast for 2026?

A: We don't think it will end at 7 billion yen. The original forecast was for operating profit to be at the 3 billion yen level from 2024 to 2025, and for the structural reform effects to bring operating profit to 7 billion yen in 2026. Also, if the one-time cost of 1.5 billion yen is not incurred, it is also possible to understand that operating profit will be more than 6.5 billion yen in 2025. However, as we move forward with management, the situation may change. As of today, I would like to limit my explanation to the fact that we are aiming for operating profit of at least 7 billion yen.

Q: Is there a possibility that new one-time expenses will be incurred when the guidance is announced in 2026?

A: At present, we do not think so. However, if new initiatives, such as M&A, etc., occur, we do not know.

【About the structural reform】

Q: Did you decide to move to a holding company structure after considering various assumptions, such as the possibility of partnerships between companies and the possibility of improving profitability in the future?

A: We are not considering moving to a holding company structure with the aim of selling off businesses. Each Corporation is working on its own business, with Earth Environmental Service Co., Ltd. focusing on the General Environment and Sanitation Business and Earth Pet Corporation focusing on the pet business. However, Earth Corporatin, BATHCLIN Corporation and Hakugen Earth Corporaton operate in similar fields, and there are some areas of overlap, so we are thinking of reviewing these areas to improve efficiency. Until now, each company has been operating with an independent accounting system, and it is undeniable that there has been some cannibalization between the companies, but as long as there was profit, it was considered acceptable. However, by adopting a holding company structure, we will be able to improve efficiency across the entire group, including in overlapping areas of sales and production.

Q: Are there any negative effects of reducing SKUs? I understand that your company has products for various types of pests, and that this is a marketing advantage. While there are cost benefits, are there any disadvantages for sales?

A:Reducing SKUs is not about cutting down. We have been reducing SKUs based on internal standards from various perspectives, such as profitability, number of stores carrying the product, lack of functions, and impact on market share, so that consumers are not inconvenient. We were also able to make good progress with the disposal sales of products that had been manufactured in the past, and we were able to make significant reductions in one year. We will continue to make reductions in the future, in line with the same internal standards. While reducing SKUs, we will also be introducing new products that can create markets in different ways. We are working to maximize profits by constantly optimizing SKUs with more profitable products, so we do not see any major problems.

Q: Considering the trends of other companies, do you think there will be any changes in the direction of bath salts products or the way you do marketing in the future?

A: In the past, a few companies, including Earth Corporation, dominated the bath salts market, but new companies are emerging and expanding their market share. We will continue to introduce products with added value, such as the products for kids, this year too. BARTH has expertise in high-value-added products that we didn't have, and they are contributing to the company. From our position, we want to tackle bath salts with the idea of responding to all needs in the same way as insect care products. We will move forward with a strategy to acquire the family and personal use domains. To this end, we are in the process of integrating BATHCLIN Corporation and working to achieve synergy effects.

Q: How accurate are your thoughts on the timing of the structural reform of Hakugen Earth Corporation?

A: We will consider the timing when the time comes. We will examine the advantages and disadvantages of integrating with BATHCLIN Corporation while considering the matter. We will focus on creating synergy as a group. In addition, Hakugen Earth Corporation is a manufacturer that has products such as cooling agents and heat retention agents in addition to repellents for clothing. If it were only a manufacturer of repellents for clothing, we would have to consider how to respond. As a group, we will consider how to respond while also considering the business areas of each company.

【About MA-T@ business】

Q: Please tell us about the earnings situation for the MA-T@ business in 2024. How much of the 7 billion yen operating profit for 2026 is accounted for by the MA-T@ business?

A: We achieved the 450 million yen sales target we explained in 2024. In 2025, we explained a sales target of 1.3 billion yen at the 2Q theme MTG, and we are working towards this target internally. However, the figures we have included in our 2025 forecast are conservative, so the plan is slightly lower than 1.3 billion yen. In terms of profit and loss, we are aiming to achieve a single year in the black during fiscal year 2026. Unfortunately, we have not yet achieved a profit in 2024. We will continue to work towards our 2026 goal, while also working to increase awareness at events such as the Osaka Expo.

Q: What level of sales do you expect when the MA-T@ business becomes in the black?

A: We are aiming for sales of 2 billion yen. As this business is being developed in collaboration with various companies, the speed at which it becomes profitable, and the scale of sales will vary depending on the partner. We don't know which company we will collaborate with to achieve this sales target, but we hope you will understand this as a rough guide.

Q: I understand that if we can get license agreements for the MA-T@ business, our earnings situation will improve significantly. How are these negotiations progressing?

A: I would like to refrain from giving a specific explanation at this stage. I have heard that several projects are progressing.

【Others】

Q: What is the biggest issue that CEO Kawabata is aware of?

A: I am thinking about the trends in the industry, including the distribution industry. The times are tough for manufacturers too, and there is a question of whether we, including Earth Corporation, will be able to continue as the Earth Corporation forever. With the Japanese population declining, there is a trend towards consolidation in the retail industry, and I don't think that manufacturers can just continue as they are. I think that we need to respond to change while thinking about the survival of the company and our employees.