Earth Corporation
Earnings Briefing Materials for 2Q the Fiscal Year Ending December 2026
Summary of Questions and Answers

【Impact of the Situation in the Middle East and Raw Material Costs】

Q: Because stockpile production of insecticides & repellents for the next fiscal year takes place leading into winter, there are concerns about cost increases next fiscal year if current raw material prices remain high. Could you please share the impact and your approach to addressing this?

A: Since insecticides & repellents are produced and stockpiled prior to the season, they are directly affected by raw material prices resulting from the situation in the Middle East. While future raw material price trends remain uncertain, our policy is to pass on cost increases through price revisions. In addition, we believe we can sufficiently absorb the impact for the next fiscal year by combining multiple measures, such as reviewing product specifications, production and packaging methods, and adding high value to products.

Q: For categories other than insecticides & repellents, will the price revisions to be implemented from this summer onward almost completely cover the cost increases that will manifest by the first half of the next fiscal year? Or do risks such as fluctuations in procurement prices remain?

A: We are accepting raw material cost increases in stages through negotiations with suppliers, and the impact becomes apparent at the time products using those materials are sold. By advancing price revisions starting in the second half, mainly for household products, the effect will be added on in the first half of the next fiscal year compared with the current period, and we expect to cover the impact currently being felt. Regarding other categories such as insecticides & repellents, our policy is to absorb impacts by combining price revisions and cost reductions to the necessary extent.

Q: Regarding the above price revisions, with competitors presumably affected by similar raw material and packaging material costs, is it correct to understand that industry-wide price increases are progressing?

A: For bath salts, other major manufacturers have already executed price revisions, so Earth Corporation is not the only company affected by raw material and packaging material costs. Since each company faces a similar situation, we believe that industry-wide price revisions will progress for portions that cannot be absorbed internally.

【Performance, SG&A Expense Results and Plans】

Q: In both Q1 and Q2, SG&A expenses—particularly advertising expenses—have continued to be underutilized compared to the plan. Please tell us your policy on the deployment of SG&A expenses in the second half.

A: For the second half, we do not plan to spend more than the amount used in the previous year (a year in which we made record-high investments, including the renewal of MONDAMIN). While we will proceed while assessing investment efficiency, we expect expenses to remain within the same level compared to the previous year. Furthermore, while advertising expenses have decreased, the volume of advertising itself has increased year on year, and we are advancing initiatives to enhance cost-effectiveness.

Q: (Earnings Briefing Materials: P6) Can the negative ¥1.53 billion variance against the plan in SG&A expenses be viewed as a buffer to absorb cost impacts from the situation in the Middle East and other factors?

A: That is correct.

Q: Regarding the underutilization of planned SG&A expenses, please tell us specifically what costs have differed from the plan.

A: The factors for the underutilization of planned SG&A expenses are wide-ranging. They include factors associated with mid-career hiring conditions, as well as unused funds that were set aside in advance for agile actions, and are not concentrated on specific cost items. While some portions are being contained, our policy is to proactively execute necessary investments.

【Domestic Operations (Insecticides & Repellents / Homecare Products)】

Q: (Earnings Briefing Materials: P9) As of the end of June, the insecticides & repellents market stood at 103% year on year, which was a firmer result than anticipated. With the explanation that July onward has also been solid, is it correct to understand that the underperformance through June will be caught up over the full year, bringing results firmly into positive territory for the full fiscal year?

A: It is fine to understand it that way. Last year was an unusual year in which the start and end of the rainy season was about three weeks earlier than usual, causing demand to occur ahead of schedule in June while April and May were sluggish. This year, April and May were strong, June progressed on par with typical years, and July has improved to approximately 110% year on year.

Q: You mentioned that you recognize challenges regarding bath salts. Is it correct to understand that while necessary expenses were deployed in the first half, sales still fell short of the plan?

A: In the first half, there was an aspect of containing investments. From the second half onward, we plan to roll out sales promotion expenses for bath salts in earnest, aiming to expand market share through a counteroffensive.

Q: Please provide an overall summary of the opportunities and risks for our company regarding the renewal of MONDAMIN, the competitive environment in the domestic oral hygiene market, and the expiration of the contract with Haleon Japan in December of this year.

A: Following last autumn's renewal, MONDAMIN has seen progress in store shelf allocation and sell-through over the past year, leading to advancements in securing market share and acquiring new customers. This autumn as well, we will introduce new products and review our promotional methods to maintain and accelerate this positive momentum. The impact on performance from the termination of the contract with Haleon Japan is minimal, and we are currently advancing considerations for new initiatives going forward.

Q: (Earnings Briefing Materials: P8) Gross profit margins for domestic homecare products, including oral hygiene products, are in the 30% range. Do you consider this level appropriate, and what is your policy for raising it over the medium term?

A: We are not satisfied with the 30% level. Because the competitive environment differs from that of insecticides & repellents, it is difficult to raise it to the same level as insecticides & repellents all at once. However, rather than relying solely on price revisions, we aim to improve it to 35–37%, and in the early stage to around 40%, by creating integration synergies with Bathclin.

【Impact of the Integration of Bathclin Corporation】

Q: Regarding the Bathclin integration synergies shown in the variance against the plan, is it correct to understand that these were factored into the initial plan as structural transformation effects, separate from price revisions responding to the situation in the Middle East?

A: Cost synergies from the Bathclin integration have already been factored into the initial plan.

【Overseas Operations and Group Companies】

Q: Regarding Hakugen Earth, while I believe Q2 was impacted by low temperatures, what is the current profitability status?

A: Sales of cooling products, one of our main product categories, were slightly below the previous year at the first-half stage due to temperature impacts; however, as a result of appropriately controlling gross profit and SG&A expenses, operating income increased. Moving into the second half, demand for cooling products is expected to recover due to rising temperatures, and we anticipate that smooth progress will continue.

- END -