

Earth Corporation
Follow-up meeting for 3Q of the financial year ending December 2023
Summary of questions and answers

[Financial Results for 3Q of FY12/2023]

Q: We believe that gross margins in the Insecticides & Repellents sector are high, but why is there no positive effect this time, even though the Insecticides & Repellents sector is in line with the plan for the full year?

A: The Insecticides & Repellents sector is expected to be largely in line with the plan for the full year. However, this is because the effects of price revisions have not been as expected and changes in the sales mix within insect care products are taking place.

Q: We launched high-value-added products in insect care products around last year, and we were aware that products such as “ZERO de KNIGHT” were selling well. What is the reason for the negative sales contribution of new high-value-added products, despite the introduction of new products?

A: Some of the new products in the current financial year have not sold well. It is a fact that the plan was strong. Another factor that may have contributed to the lack of sales contribution was the misalignment of sales measures. Specifically, there was a slight discrepancy in the pricing of the products. “ZERO de KNIGHT” has a certain market share with few competing products, so although a certain level of sales was achieved, it did not meet the plan.

Q: I understand that you have recorded your first 'equity in losses' in the third quarter of this year, can you tell us about this and which companies you have applied it to?

A: Earth Healthcare Co Ltd, which was previously non-consolidated, was included in the scope of application of the equity method from the third quarter of the year under review. The company operates a dental information website for searching and booking appointments at dental clinics.

[Status of COGS]

Q: I remember that the initial estimate of the impact of raw material price hikes in FY23 was JPY 2.5 billion, which included a foreign exchange impact of JPY 0.5 billion; what is the amount of the foreign exchange impact as of 3Q? Also, what is the expected impact of raw material price hikes in the current financial year?

A: It is not possible to strictly separate the amount affected by raw material price increases from the amount affected by foreign exchange. For example, in some cases, foreign exchange is already included in the price when purchasing from abroad. Therefore, it is not possible to calculate the exact amount of the impact, but it should be approximately in the second half of the single-digit billion yen range. The impact of raw material price increases in the current financial year is

expected to be around JPY 3.5 billion, including the increase in foreign exchange effects.

[About the bath salts sector]

Q: What was the market situation for bath salts up to October? Also, what is your view of the market situation from November onwards?

A: The market for bath salts at the end of October year-to-date is approximately 95% of the previous year's level. The high temperatures have had an impact, and although it is the start of the season, it is a low start; from November onwards, the temperature is gradually dropping, although there are still some high temperature days. There is a certain degree of correlation between bath salts and temperatures, so we are looking forward to future market conditions.

Q: Does the revised full-year plan also reflect the situation in the bath salts market in October?

A: Risks are estimated and foreseen.

Q: What were BARTH's sales and organic growth rates as of 3Q?

A: The results are about 90% of the planned figures. We are also growing by about 90% compared to the previous year.

Q: Why has BARTH remained below the previous year?

A: We are aware that there is a situation where various competing products are being introduced and that sales are temporarily falling. In the short term this will be negative, but it also means that the market for high-priced and high-value-added products is gaining momentum, so we believe that this will have a positive effect in the medium to long term. We believe that what we need to do is to work on measures to gain BARTH's presence.

[About the oral hygiene products sector]

Q: Why has the market for oral hygiene products fallen and why has your market share declined?

A: The market is down by about 5 pt compared to the previous year. Our market share is down by about 0.5 pt. We have not found a clear link between the reasons for the market decline and the impact of lifestyle protection awareness, etc., and we are still analysing the situation. As for our market share decline, we are losing sales to competing products, but looking at the actual sales floors of our shops, we do not see any indication that they are falling off the shelves. Nor do we see any indication that competing products are on a pricing strategy. However, we believe that the situation is slightly lacking in measures such as commercial drops to raise brand awareness, which may be contributing to the decline in market share.

[On overseas operations]

Q: What is the growth rate in local currency terms in each overseas country in Q3?

A: Thailand +6.6%, Vietnam +18% and China about -50%.

Q: Is the problem of treated water and backlogged inventories behind China's negative growth?

A: There have been some planned KOL events cancelled due to the treated water problem. However, the current slowdown in the Chinese subsidiary is not due to the treated water problem. As explained since Q1, we are in the process of restructuring our current China operations. Details will be explained in the next mid-term plan.

[Revision of full-year financial results forecasts]

Q: In terms of sales against plan, bath salts and oral hygiene products missed the target by JPY 1.7 billion and JPY 0.3 billion respectively. On the other hand, please explain why the gross margin underachievement in these categories is greater than the sales underachievement.

A: Changes in the sales mix and the impact of raw material price increases, including foreign exchange effects, are factors. Foreign exchange effects and raw material price effects cannot be precisely separated. For example, some of the main raw materials for bath salts, such as glauber's salt and baking soda, are purchased from overseas. Therefore, the prices include foreign exchange effects. In addition, the number of manufacturing processes required for the fractional packet type (assortment type) of bath salts increases, making it more difficult to increase profitability. Oral hygiene products are also affected by rising raw material prices. Raw material prices have recently settled down. However, it is the prices of raw materials purchased around the second half of last year that are currently affecting the PL. This has had a larger impact than initially expected. Due to these effects, the gross profit margin underachievement has been larger than the sales underachievement.

Q: Please tell us about 'Reducing excess inventory' on page 16 of the explanatory material. Which categories of products are in stock? Also, will the costs associated with the reduction have an impact on Q4 and beyond?

A: The main inventories are products from the household goods division that have been immobile for a certain period of time. We are working on reducing them in order to prioritise cash generation rather than storing them and incurring costs; part of the 500 million yen mentioned on p. 16 has already been recorded in the PL.

Q: Are there any special costs related to inventory reduction? And how much effect do you expect to have in the next financial year, when these costs will be eliminated?

A: We cannot state clearly that the related costs will be eliminated in the next fiscal year, as we are also looking at continuing to deal with the reduction of excess inventories in the next fiscal year

and beyond. We are currently in the process of finalising the details of the measures to be taken in the next fiscal year and will explain them again.

Q: Is there room for further optimisation of inventories in the future?

A: That is correct. We recognise that issues such as appropriate stock levels are a challenge and will continue to discuss them.

Q: We are aware that in the cumulative 3Q results, operating profit was approximately 2 billion yen short of the plan, and 1.1 billion yen short of the plan in Q3 alone. Please explain the difference between the current underachievement and the revised operating profit forecast for the full year announced this time. Is it correct to understand that the difference in revised operating profit (3 billion yen) minus the amount of unachieved operating profit in the cumulative 3Q results (approximately 2 billion yen) (approximately 1 billion yen) is due to costs associated with reducing excess inventory (500 million yen) and the use of some costs reduced through cost controls?

A: As you generally understand, operating profit in Q3 was approximately 1.1 billion yen short of the plan. The reasons for the fall from the plan in Q4 will be the cost of reducing excess inventory, the additional use of expenses and the failure to meet the sales plan in the household products division.

Q: We understand that while the impact of the raw material price hike was in line with the plan as of 2Q, an impact of ¥500 million occurred in Q3. Are there any other factors that will be a hurdle to profits when considering performance from 4Q onwards?

A: The impact of the raw material price hike was ¥0.5 billion in Q3 alone, as you can see. The revised forecast figures are calculated within the range that can be estimated at present and are considered conservative.

Q: On p. 16 of the performance statement, there is a planned difference of JPY 780 million in the 'risk of Group companies not achieving the plan'. Is there anything you can do to improve the governance of Group companies' performance?

A: We are not in a situation where the planned difference has increased without doing anything. From the point of view of controlling Group companies, we are proceeding with what we can control on our own, not only on our own but also including Group companies. However, the risk of underachievement this time lies in the fact that the impact of the market environment for bath salts and the economic situation in China has exceeded what we have been able to control on our own.

Q: Where will you be focusing your efforts to increase sales in the next financial year and beyond?

A: This year, the Insecticides & Repellents division is performing in line with the plan, and we believe that it will be able to steadily grow from next year onwards. On the other hand, the domestic household products division's underachievement (-3.7 billion yen) has had a significant impact on the revised plan, and we believe that leveraging this division will contribute to growth from 2012 onwards. However, we will explain specific strategies and other details when we announce the new medium-term plan.