



## **Shiseido Company, Limited**

Dialogue between Shiseido's External Directors and Investors

July 8, 2025

# Event Summary

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[Company Name]	Shiseido Company, Limited	
[Company ID]	4911-QCODE	
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[Event Name]	Dialogue between Shiseido's External Directors and Investors	
[Date]	July 8, 2025	
[Speakers]	Yoshihiko Hatanaka	External Director, Chair, Board of Directors, Chair, Compensation Committee
	Yasuko Gotoh	External Director, Chair, Audit Committee
	Yuko Kato	Executive Officer, Chief Corporate Governance Officer
	Yuki Oshima	Vice President, Investor Relations Department

\* This transcript has been prepared by the Company in cooperation with SCRIPTS Asia, Inc. For ease of understanding, additional context and/or partial amendments have been added to the original transcript of the video streaming.

# Presentation

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**Oshima:** Investors and analysts, thank for your participation in today's event, the dialogue between Shiseido's external directors and investors.

I would like to introduce speakers. We have External Director, Yoshihiko Hatanaka, External Director, Yasuko Gotoh, and Chief Corporate Governance Officer, Yuko Kato. Today, we will have Kato-san, Hatanaka-san, and Gotoh-san give you a presentation followed by the Q&A session. We would like to have Kato-san to begin. Thank you.

**Kato:** Hello, everybody. Once again, thank you for participating in today's event. I am the Chief Corporate Governance Officer, Kato. Now, I would like to introduce to you the two external directors that are here with us today.

## 1. Speaker Introduction (Yoshihiko Hatanaka, Shiseido External Director / Chair, Board of Directors)

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- Led Astellas Pharma for 12 years as Representative Director after serving as the Head of Corporate Planning and Finance at Astellas Pharma Inc. and as a representative of U.S. subsidiaries. He has diverse and extensive knowledge in global corporate management.
- In March 2017, he received Corporate Governance of the Year 2016 Prize, hosted by the Japan Association of Corporate Directors.
- Hatanaka has been serving as External Director of Shiseido since March 2023, and was nominated as the Chair of the Compensation Committee in March 2024, and the Chair of the Board of Directors in January 2025.

Apr. 1980: Joined Fujisawa Pharmaceutical Co., Ltd. (currently Astellas Pharma Inc.)  
Jun. 2005: Corporate Executive, Vice President, Corporate Planning, Corporate Strategy Division, Astellas Pharma Inc.  
Apr. 2006: Corporate Executive, Astellas Pharma Inc. and President & CEO, Astellas US LLC and President & CEO, Astellas Pharma US, Inc.  
Jun. 2008: Senior Corporate Executive, Astellas Pharma Inc. and President & CEO, Astellas US LLC and President & CEO, Astellas Pharma US, Inc.  
Apr. 2009: Senior Corporate Executive, Chief Strategy Officer and Chief Financial Officer (CSTO & CFO), Astellas Pharma Inc.  
Jun. 2011: Representative Director, President and CEO, Astellas Pharma Inc.  
Apr. 2018: Representative Director, Chairman of the Board, Astellas Pharma Inc.  
Jun. 2019: Outside Director, Sony Corporation (currently SONY GROUP CORPORATION)  
**Mar. 2023: External Director of Shiseido [incumbent]**  
Jun. 2023: Outside Director, SEKISUI CHEMICAL CO., LTD [incumbent]  
Jun. 2023: Chair of the Board, SONY GROUP CORPORATION  
**Mar. 2024: Chair of the Compensation Committee of Shiseido [incumbent], Member of Nominating Committee of Shiseido [incumbent]**  
**Mar. 2025: Chair of the Board of Directors [incumbent]**



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First, we have Mr. Hatanaka, the External Director and Chair of the Board of Directors. Mr. Hatanaka is a former Representative Director, President and CEO of Astellas Pharma. At Astellas, he has robust experience in Corporate Planning and Finance, as well as overseeing international subsidiaries, becoming a Representative Director and President, then Chairman. He has led the company for many years with extensive knowledge in global corporate management. After retiring from the top positions of the company, he has been active in leading companies as an external director for multiple companies. He has been an External Director of Shiseido since March 2023. Since 2024, he has also served as a member of the Compensation and Nomination Committees as well as the Chair of the Compensation Committee. On top of those roles, he is now the Chair of the Board of Directors for our Company since January of this year.

Next, Ms. Yasuko Gotoh, the External Director and Chair of the Audit Committee. Ms. Gotoh has held various senior positions in the Ministry of Transport, currently the Ministry of Land, Infrastructure, Transport and Tourism as the first female career officer. After leaving the Ministry, she served as Executive Director of Kyushu Railway Company, overseeing both the business and finance divisions as well as serving in the role of Director and Audit Committee member. She has been an External Audit and Supervisory Board member at Shiseido since 2019 and has joined us on the Board of Directors as an External Director since 2024. Currently, she serves as the Chair of the Audit Committee. She also serves as an External Director of other public companies as well as an audit member of the Tokyo Metropolitan Government.

## 2. The Evolution of Corporate Governance at Shiseido

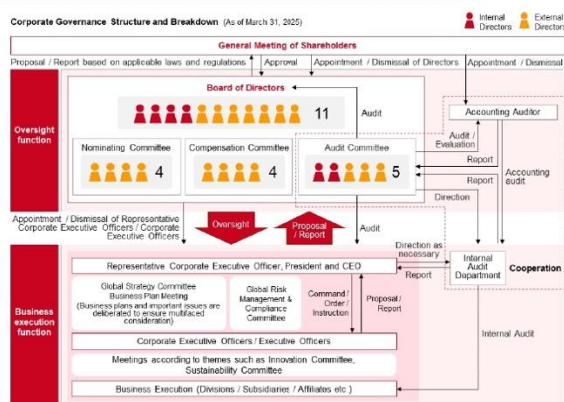
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### Transition to a Company with Three Statutory Committees (in 2024)

- The Board of Directors focuses on strategic discussions and oversight of business execution
- Increased agility in business execution through significant delegation of authority to the executive team

### Shiseido's first Chair of the Board of Directors as an external director (in 2025)

- Enhance Board effectiveness by further separating execution and oversight
- Experience and achievements as a top executive of a listed company with global footprint



- Nominating Committee / Compensation Committee  
Comprised solely of external directors

- Audit Committee:  
Chaired by an external director  
2 full-time members are non-executive directors to strengthen cooperation with the Audit Department

- External Directors 63.6% (7 out of 11)
- Female Directors 54.5% (6 out of 11)
- Non-executive Directors 81.8% (9 out of 11)

Now, I would like to quickly share with you some of the recent updates on corporate governance and especially around the Board of Directors. As of the resolution of the Annual General Shareholders Meeting held on March 2024, we have transitioned to a Company with Three Statutory Committees. We have clearly separated the functions of execution and oversight while strengthening both of these functions. The Board of Directors is now focused on discussions related to the Company's policies and strategies while overseeing the execution. Meanwhile, the executive side is working on enhancing the agility of business execution. Furthermore, under the new policy of appointing an External Director as Chair of the Board starting this January, Mr. Hatanaka has assumed the role. We believe this has further improved the objectivity of discussions within the Board of Directors. I believe that we will be able to hear from the two external directors about how these initiatives are actually working in the presentation today.

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Currently, as you can see, the Board is constructed with more than 80% of non-executive directors. The Nominating and Compensation Committees are comprised entirely of external directors. The Audit Committee is comprised of non-executive directors and external directors to strengthen cooperation with the Audit department. That is it for me.

**Oshima:** Thank you very much, Ms. Kato. Now, I would like to take this time to invite the directors, Mr. Hatanaka and Ms. Gotoh, to speak. They will share their perspectives as external directors on our corporate governance, focusing on these three major items shown on the screen. First, we would like each of them to reflect on their appointments as Chair of the Board. We will begin with Mr. Hatanaka, who will look back on his first six months as Chair and share his views on the ideal state of the Board of Directors and the current challenges. Mr. Hatanaka, can you share with us?

**Hatanaka:** As Kato-san has mentioned earlier, so in 2024, the Company has transitioned to a Company with Three Statutory Committees. After that, that is what has been introduced. As for the current status of the Company, the external environment is rapidly changing. There is a need for speed and being agile to adapt to the environment changing around us to make sure we create productivity and profitability. Now, on the executive side, we have delegated a majority or a lot of the decision-making to the business execution side. What we will do is that we have oversight. If we need to, we will step in to make things right, and we have been able to make this change very smoothly. From this January, I myself as an External Director have become the Chair of the Board of Directors. Through that, since I am an external person, from an objective view, I am able to see what is needed as a company, and I try to interpret it from my own views to share with the Board. As for that or through that, I believe that for me, the understanding of what needs to be understood through the Board has deepened, and I believe that our discussion has become deeper. The items that are seen to be very important, depending on the necessity, we will actually have a meeting just with the external directors. We will make sure to share that with the Board and the overall Board once we have an opinion as a group of external directors.

In order to be efficient and impactful, we need to be wary of the following three points: first, to increase corporate value which is a common objective between the Board of Directors and corporate executive officers. Second, the Board of Directors and corporate executive officers and corporate executive officers and the committees must ensure thorough communication with transparency. Third, to ensure that we can build trust in relationships through healthy discussions. These are the three items that we put our focus on.

**Oshima:** Thank you very much. Now, Ms. Gotoh, can you share with us some of the changes that have been made or that you can observe through the Board of Directors under Mr. Hatanaka's leadership?

**Gotoh:** As Mr. Hatanaka has just mentioned, since Mr. Hatanaka became the Chair of the Board of Directors, I feel that discussions have become clearer. The Chair has been very clear about his ideas. For example, focusing on agility, the speed and execution, the implementation and oversight, we separate that clearly to make sure we have clarity on what we need to really focus on. That allows us to have a very meaningful discussion, and he has led us very well in that kind of discussion. I believe that the Board of Directors has always had great members with external directors, allowing us to have very meaningful discussions with transparency. But under Mr. Hatanaka, I believe the effectiveness of Board discussions has been enhanced even more.

**Oshima:** Thank you very much. Now, moving on to the second item. We would like to hear your perspectives as external directors regarding the Board's awareness of key issues and its actions. The first is about the improvement of the profitability of the business and overcoming the current situation and overcoming some of the challenges. Ms. Gotoh?

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**Gotoh:** Currently, profitability improvement has become a big theme for Shiseido. Based on that, the Company needs to work on and implement these changes, these initiatives to make this change happen for improving the profitability. I believe we need to look at it by country, so maybe I will look at Japan, which is an important market, then China and the Americas. Very simply, but if I can touch on each of the regions separately.

As for the Japan market, we are making progress on structural reforms and we are starting to see some of the benefits from that. Through that, we are able to create sustainable and profitable financial structure. Some of the points to mention, looking at Japan's structural reforms, we had the early retirement plan, which was the first time in Shiseido to do this. But with a strong commitment, we started them.

As a Board discussion, we have had various discussions. But the executive team has committed to doing this, and as a Board of Directors, we want to support that as much as possible, and that has been our position. We were aligned together, and we supported as much as possible. Of course, there were concerns of the employees, and we were worried about the lowering motivation of the employees. But to do that, we had thorough communication with the employees. Then what kind of communication do we take to the employees, we had a very meaningful discussion within the Board of Directors, too. Even in the Audit Committee meetings, we have had that discussion as well. We said, well, maybe we should do a little bit more of that. We will feed this back to the executive team and we will keep on giving feedback and inputs and revisions to implement this initiative. We have been sharing a lot of the feedback and inputs together, and that is one of the key points to mention.

Now, going forward, Shiseido Japan, Mr. Nakata is newly appointed as Japan's CEO. The structural reform will keep on going with the new CEO. I believe we will continue the communication, for example, how we approach the younger segment and also the active senior. There's also the expanding men's market and all that, and we are approaching it comprehensively with a lot of motivation. That is something we want, as Board members, to continue to support.

With respect to the China market, the Company has been relying on the Chinese market a lot so there were some points raised and then we have some concerns over that. In the Chinese market, there are some deteriorations of the brand equity, so we have that as the key risks. We have been discussing as a Board how to tackle that. The lesson learned is that because amid the environmental changes, the brand equity has deteriorated and the consumers' behavior has been changing and some initiatives taken to address that were slightly delayed. Those were the discussions we had thoroughly at the Board meetings, and we need to look at the current market conditions and then demands of the consumers and we need to listen to the voice of such consumers. With that, we need to create the market where Shiseido can grow.

The Chinese market continues to be a very important market for the Company, and both corporate executive officers as well as the Board have that in mind, with the same understanding. But of course, we need to deliver strong results to prove that we are firmly on track toward recovery.

In terms of the US market, structural reforms and a fundamental improvement in profitability are very much needed. To lead the Americas Business, Alberto Noe, is now newly appointed, so under his strong leadership, we are seeing some signs of changes, and we are overseeing their initiatives as the Board. We are basically on track, but there are some sensitive topics as well, so some elements we are not able to provide information about to the market. But of course, the Board is also aware that our US brands like Drunk Elephant are facing ongoing challenges. It seems that originally, the issue was triggered by a shortage of inventory but beyond that, we are also aware that there may be a potential need for change in brand management itself, so we would like to share our views with corporate executive officers to give some support.

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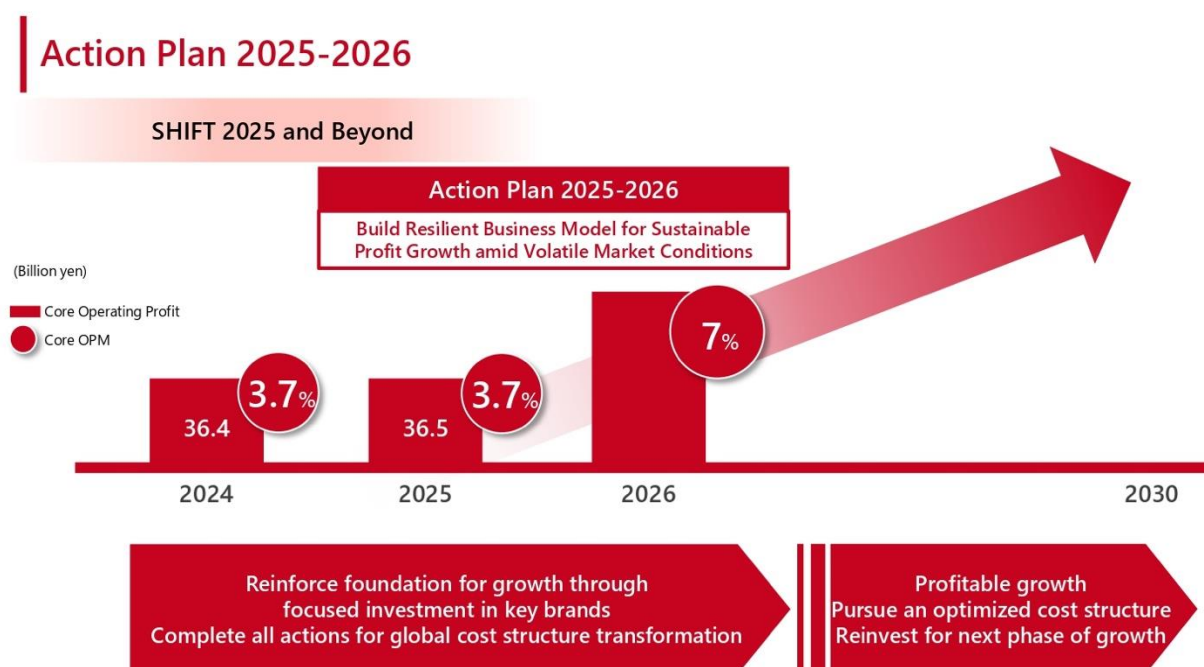
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**Oshima:** Thank you so much. Now, I will ask Mr. Hatanaka about the Action Plan. Structural reforms will now be implemented so that we will be able to get out of this very critical situation. Then we would like to solidify sustainable growth. Since November of last year, we have been implementing the Action Plan 2025-2026, how would you evaluate its progress from the standpoint of the Board's oversight of the execution?



**Hatanaka:** “Personal Beauty Wellness Company” is what we envision, and we are trying to offer some value to the consumers from the beauty perspective. This has not changed. That is a key point, and we are taking the Action Plans.

It is essential that the Company firmly establish a resilient business model in two years, in order to ensure that we realize sustainable profitable growth amid volatile market environment. The Board recognizes that and stay committed to provide effective oversight by monitoring the progress to complete the implementation of all actions under the Plan. .

The target of 2026 has already been disclosed. The ROIC target is still lower than WACC, and the profit level is not at all satisfactory. the KPIs presented by the executives have to be broken down into the individual employees, and these actions need to be implemented. We need to provide proper oversight and try to move forward and get out of this critical situation. So we are supervising very tenaciously. Beyond that, for future growth and opportunities, the Company will begin the medium-term plan starting next year. That medium-term plan will be disclosed by the end of this year.

**Oshima:** Thank you. The third question is about the remuneration systems. We have implemented the relative TSR, and ROIC will be introduced as the remuneration scheme in the LTI. Can you please elaborate on the background of why the Company adopted the remuneration system and also the expected returns? Hatanaka-san, can you please, as you are the Chair of the Compensation Committee.

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## KPI Review and Updates on LTI and Remuneration-related Issues

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- **Changes in evaluation metrics for the Long-Term Incentive-Type Remuneration (LTI)**
  - Adopted new metrics for measuring shareholder value (relative TSR) and capital efficiency metrics (ROIC) to maximize corporate value over the long term
  - Changes in executive officers and regional CEOs

	Evaluation Weight	Before	After
Economic Value Metrics	50%	Core OP margin	Relative TSR*
	30%	Sales CAGR	ROIC
Social Value Metrics	20%	ESG-related Environmental/Social/ESG Rating Agency Score	ESG-related Environmental/Social/ESG Rating Agency Score

- **Changes in composition of total remuneration for CEO**
  - Enhance CEO's commitment maximize corporate value over the long term by improving the composition of the LTI

	Basic Remuneration	Performance-linked Remuneration		Total
		Annual Incentive	Long-Term Incentive-Type Remuneration	
Before	33.3%	33.3%	33.3%	100%
After	20%	20%	60%	100%

\* TSR growth rate relative to our global peers in the beauty industry selected for performance comparisons

**Hatanaka:** Thank you. Traditionally, our compensation system and evaluation metrics have been focused on net sales and core operating profit for both annual incentive and LTI. To resolve the overlap between them, we now evaluate net sales and core operating profit for annual incentive and bonus in order to measure how much profit or return the Eligible Officers, including CEO, are able to generate on invested capital in our operating activities. We also changed the evaluation metrics for LTI to increase their awareness towards maximizing shareholder value. These changes are intended to strengthen the link between our executive compensation plan and shareholders interest to ensure a firm implementation of the Action Plan 2025-2026 while raising awareness to the Company's business execution and its effect on share price

Also, with respect to the composition of total remuneration for the CEO, it is structured in a way that the proportion of LTI is higher so that the CEO will be more committed to driving corporate value over the long-term.

We have received a range of feedback including evaluation weighting. We will continue to monitor the compensation plan overall, including basic compensation, annual and long-term incentives. We would like to think about how we should be optimizing the plan overall through discussions at Compensation Committee meetings on an ongoing basis.

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## Question & Answer

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**Oshima [Q]:** Now, we would like to enter into the Q&A session. I would like to start reading the advance questions. The first question is “What specific skill sets do you consider necessary to strengthen the Board of Directors in preparation for the General Meeting of Shareholders in March 2026?” Hatanaka-san, can you please answer?

**Hatanaka [A]:** As has been explained by Gotoh-san, the Japanese cosmetic market is shrinking while China’s market is maturing with lower growth. In such external environment, the most important business challenge for us is to achieve growth in other regions outside of Japan and China.

Accordingly, the Board of Directors is fully aware that growth in overseas markets is essential. To that end, we are, for example, aiming to create a Board of Directors comprised of members with management or marketing experience at global companies or those who are capable of providing effective oversight to the execution team, including the CEO, through the Board while also encouraging appropriate risk-taking in order to drive corporate value.

We are also strongly requesting the execution side to strengthen our capabilities in global marketing while fostering competitive human capital. In this way, we believe that both the Board and corporate executive officers will be able to strengthen our capabilities to drive future growth.

**Oshima [Q]:** Now, the second question is “We understand that promoting structural reform requires simultaneous transformation of the organization's culture, which is a time-consuming process. What initiatives has the Company taken to ensure that all employees can embrace this culture of transformation? Additionally, how does the Board of Directors monitor the progress of the organization culture transformation across Shiseido as a whole, and how does the Board oversee the progress of the organization culture, transformation across Shiseido as a whole?” Can we maybe start with Ms. Gotoh-san?

**Gotoh [A]:** I think it is true that in order to promote structural reforms, it is necessary to change the organizational culture at the same time, but I think there are two points to consider in terms of organizational culture in this case.

The first point is that when we implement structural reforms, we inevitably have an image of downsizing, question as to we become conservative or employee motivation will decline, and whether they will be able to work with positive feelings and strong motivation within our organization.

Secondly, I think it is an extension of that, but how do we continue to make sure we have profits and also growth? How do we nurture that kind of mindset that under the structural reform, we continue to grow and grow the profits? When we work on structural reforms, as it was the case for the structural reforms in the Japan Business, we must ask ourselves “Why are we doing this? Why is the Company trying to do structural reforms?” We needed to clarify the objective and make sure we share that objective with the employees. In order to do so, we have had repetitive communication with the employees so that we have a thorough message as to why we need to do structural reform.

We are doing this in order for us to overcome the critical situation. But furthermore, for us to grow in the future, for Shiseido to grow in the future, we need to make sure everybody is convinced and understands why we are doing, and that is a very clear critical point for us to pursue structural reform.

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As for that, the Board as well as executive leaders, we have had many, many discussions about this kind of communication and I have mentioned a little bit earlier. But the Audit Committee as well, we will look at it and give input. Maybe you are short of communication in this area. Maybe it is better to do this kind of communication. If we need to, we will give input to the executive officers and request for an improvement. And to make sure that the employees have high motivation and can keep their motivation, so that all the employees are aligned together in the objective to pursue what the Company wants to pursue.

Currently, we are in the midst of structural reforms, and the leader of the execution team will go to each of the regions to engage in discussions our employees. I also hear that they are communicating with employees in a big-sized town hall meeting to a smaller-sized meetings to discuss about how we should implement reforms and what Shiseido is aspiring to become?

Those are what I hear the executive officers are doing. Starting with Mr. Fujiwara, the CEO, I believe that it is very agile. Even on an e-mail basis, we have very quick updates and quick communication, so that the Board of Directors are fully aware of the current situation and progress as well as for us to be able to have the proper oversight.

**Oshima [M]:** Thank you very much. Mr. Hatanaka, from you?

**Hatanaka [A]:** To answer question about how we should manage changes in organizational culture across Shiseido, in general, what corporations would do is look at the engagement survey of the employees and look at the changes or we will have like an internal team competition, for example, to see how many unique proposals will come internally. We would do that to look at what kind of change in transition has happened in the Company. However, for me, what I prioritize or what I focus on most is the management team, starting with the CEO, Mr. Fujiwara. The management team, their decision-making, and the speed of execution and the agility, the speed. To that, how focused are they with return on investment? Those are the elements I focus on when I look at it from the Board perspective.

From a Board meeting, we will have a discussion with the Board and the Executive Directors, and we will make sure that we have full communication and that it is shared across the Company. And so that each of the individuals have accountability or responsibility, a sense of responsibility to make sure that they are part of the team. And so therefore, the Board and as for myself as part of the Board member, how is the management changing? That is another, so that is what I focus on as well.

**Oshima [M]:** Now we would like to take a question from the floor or from the participants. If you have a question, please raise your hand.

**Kuwahara [M]:** Hello, this is Kuwahara of JPMorgan. Thank you for the session today. Mr.Hatanaka, I met you one year ago at similar meetings, talking about the balance between growth and risks. Today, I would like to ask you how you managed to improve risk management, and what kind of communications you had during the past year.

Especially in Q2 last year, in the US, there was an IT system trouble that caused a delay in delivery to customers, creating quite difficult situations for a cosmetics company. I heard that the system upgrade on the production side has temporarily been halted due to the difficulties, but eventually the problem must be solved. Do you have any kind of risk management, and what kind of communications did you have to manage these kinds of risks? The other risk factor is changing geopolitical landscape with tariff issues, etc. , so can you please elaborate on that?

**Hatanaka [A]:** First of all, in terms of the IT system trouble caused last year, yes, we recognized that as a major deterioration in terms of brand equity, so we take it very seriously. The Board communication with corporate

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executive officers was not just about reporting what happened, but also about what kind of measures they took against such failures or system troubles, and what the next steps would be to address the situation. In this way, we are communicating with the execution side in a way that require them to manage risks without reducing the speed of decision making.

In other cases, we also make sure that plan B or plan C are always considered in discussions. so in this sense, they are highly sensitive to risks. In addition, I think that the speed of responding to risks is also increasing.

Regarding your second question on geopolitical and tariff risks, this is the most serious problem for all companies around the world, not just us. Naturally, from the standpoint of Shiseido's current supply chain, we have made it clear where the risks lie.

We have been constantly updating our situation internally, but as the news yesterday shows, the situation will change instantly, so we are thinking of avoiding what is more definite here, or what happens when we move things by making a decisive decisions, and another risk arises at that moment.

**Kuwahara [Q]:** Thank you. I would like to confirm one thing, like the issue in Q2 last year, making an agile response to emerging risks one by one by considering plan B and C, I think that will also lead to a change in the culture of the organization in the future as you mentioned. From what you have seen in the initiatives the Company has taken in the past year, do you see such a process has been steadily accelerating over the past year?

**Hatanaka [A]:** Yes. I believe that we are making significant progress in terms of our sensitivity to risk, our flexibility in taking actions, and our ability to address profitability in a timely manner from multiple perspectives.

**Kuwahara [M]:** Thank you so much.

**Osada [Q]:** My name is Osada from JPMorgan Asset Management. Thank you very much for this opportunity today. I have Just one question. I would like to ask about conflicts of interest in terms of the finance capabilities of the Board of Directors. Could you share with us some of the specific cases in the past for future reference?

Specifically, investors have this impression that the sale of personal care business and US prestige makeup brands both which entailed unfavorable option deals for the Company which had become apparent after the deals were actually closed. When the deals were actually closed, there was only limited disclosures about it. As a result, in the sale of personal care business, there were deals such as selling of a factory and then later shares were sold at book value. Also, in the divestiture of US makeup brands, it had previously been disclosed to be financed through a seller-note, but then it was found out that it actually included certain terms and conditions similar to an earn-out clause that it would subordinate the amount of payment due to the Company to return of capital to the Buyer.

For these kind of options and financial complexity of the deals, do you think the Board really understood the details of the transactions? Now, going forward, how would you deal with that? Also, in terms of conflict of interest, I wonder if the information was properly managed because there was an external director from the asset management side in the Board at the time. How would you avoid that kind of situation going forward? I believe when the deals were done, Mr. Hatanaka, you were not the member of the Board, but could you tell us what are your thoughts about this? Thank you very much.

**Gotoh [A]:** Mr. Hatanaka is to respond, but I myself was a part of the Board, so I would like to respond first. Two items that you had brought up. Regarding the first point, unfavorable conditions in the deal, I would like

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to say that the Board of Directors thoroughly discussed about the existence of these conditions and deepened our discussions on what would happen in such a case.

With that in mind, at the time we were going through structural reforms amid the COVID pandemic. As we continue structural reforms, we believed that we must go ahead with the deal, and we should do that even with these kinds of conditions for divestitures. I would like to note that the Board was aware of the situation and made a decision to close the deal at the time in order to proceed with the restructuring.

Second, you mentioned that there was an external director from asset management side. We made sure that there is a firewall with the information so that the materials are not shared and the person will not participate in the discussions. Of course, we do have a legal team, the lawyers join us so that there is no breach and leak of information. As a Board, we have had that confirmation is what I remember. We were thorough, that kind of information, the core breach of information has not happened at the time.

**Hatanaka [A]:** Now, I would like to add a few words. As you know, the way we manage our business continues to evolve according to the environment which we operate at the time, so we believe the Board made the decision that was considered to be the best at the time while managing risks, and I think that was the result of that. I think it would be important for us to make use of our own judgments in the past, selection of strategies by our competitors, as well as changes in consumer behavior in management decisions and governance perspective. That is my view.

**Osada [Q]:** Thank you very much. Maybe if I can add on to that. Going forward, this is kind of like a request from investors. In the past, the presentation materials at the time of the announcement of this deal did not mention anything about option deals, and investors had to make a judgments based on information that was available at the time.

Looking at the Annual Securities Report issued after the deal, for example, a subordination clause for the seller note that requires the Divested Business to meet a certain threshold in its financial results is not mentioned at all neither in the sections of the “Material Contracts” nor “Financial Instruments”. Also, for the Personal Care business, the exit in summer of 2024 when they were preparing to do the IPO as well as terms and conditions for the sale of the factory were not explained or written in the documents at the time. And so as an investor, we have this feeling that we received a string of negative information after the deals were closed.

It's about sharing information properly going forward. It may have been difficult to disclose the information under the confidentiality agreement. However, if the Company is in a disadvantageous position, it would be a fair opinion of investors to request to ensure appropriate disclosure in Annual Securities Report or to communicate properly through IR documents. If you have any thoughts on this, please let me know.

**Hatanaka [A]:** Thank you very much for your valuable input. We will make sure that information is fairly and appropriately disclosed to investors to support their investment decisions, and we will make every effort to achieve this.

**Osada [M]:** Understood. Thank you very much.

**Koguchi [M]:** This is Koguchi of Mitsui Sumitomo Trust Asset Management. Due to weak business performance, we may have to accept it, but I would like to ask a question about the Company's share price.

Earlier, you mentioned about the shareholder's perspective with regard to the Company's compensation structure, and you are aware of the problem. I would like to ask you how the Board is discussing about the stagnation in share price due to weak business performance, and what kind of advice and opinion is given to corporate executive officers now.

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**Hatanaka [A]:** Thank you very much. We are very concerned about that point. First of all, in the Board meetings, we confirm the business execution team and the IR department about what kind of feedback is received from investors almost every time. In this context, we are also discussing what is not sufficient for Shiseido, or what actions have already been taken to address this issue. Accordingly, the Board and corporate executive officers are both engaging in discussions every time with a strong interest in enhancing corporate value.

As you have pointed out in your comment about the compensation structure, it is difficult to see why Shiseido is currently in such a difficult situation across the entire organization, and how the day-to-day activities of each individual lead to corporate value as a whole while increasing our understanding. We encourage the execution side, for example, to breakdown our activities by department and by division as much as possible to see what kind of activities should be carried out within the framework of an ROIC tree.

**Koguchi [M]:** Understood. Thank you. I know that until your performance recovers, it is rather difficult. But you may need to take action, and if continue to communicate with the market to increase understanding of the effectiveness of the structural reforms for a swift turnaround in the share price. I appreciate your continued support.

**Hatanaka [A]:** Yes, understood.

**Meggitt [Q]\*:** Lottie Meggitt from Independent Franchise Partners. Thank you very much for sharing your views with shareholders. We really appreciate it. Management is making really good progress towards that 7% operating margin target. You acknowledged as well that the 5% return on invested capital is currently below Shiseido's cost of capital. Could you share with us how the Board thinks about the timeline for returning Shiseido's return on capital to at least its cost of capital, please? Thank you very much.

**Hatanaka [A]:** Yes, regarding your question, as I mentioned earlier, operating profit margin and ROIC in fiscal 2026 are milestones that should be achieved at first in that year, and we will of course be pursuing further improvements after that as soon as possible.

As we have not yet announced our plans for 2027 and beyond, we are unable to provide specific details or deadline to answer your question. However, since Shiseido is aiming to become a global beauty company, we have our global competitors as a benchmark, and they are achieving a double digit profit margin or some are even achieving over 20% on a stable basis.

Although there are differences in assumptions, the Board has requested the Company to improve its performance to be parallel with these global competitors as soon as able and we want to support the corporate executive officers in achieving that going forward.

**Meggitt [M]\*:** Thank you very much.

**Miyazaki [Q]:** This is Miyazaki of Goldman Sachs. Thank you for taking my question. As you have explained today, it is clear that Shiseido has established a solid corporate framework with effective board of directors comprised of external directors, moving in the right direction with improvement in terms of communication with the execution side.

What I would like to ask about is how the Board has been discussing about the root cause of the current situation as it has been difficult to see any improvement in terms of business performance. Is it due to challenges that brands are facing? Or is it because strategies are not working quite well? Or is it primarily attributed to macroeconomic condition?

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Also, do you think you have enough source of information when you make decisions? Or is it far from enough? How do you make judgements? If you could share your thoughts, that would be great.

**Hatanaka [A]:** Thank you for your question. Your question is about what we think the fundamental cause of the current difficult situation is.

First, we grew significantly on a global basis before the outbreak of Covid-19. Particularly, we successfully captured opportunities for growth by reaching Chinese consumers not only in China but also in travel retail and as Japan's inbound markets. It is our understanding that the rebound from that came all at once after the Covid-19.

Based on that, as Gotoh-san briefly explained earlier, we have implemented structural reforms in the China Business and now undergoing structural reforms in Japan. In addition, we are mostly in line with our plan for structural reforms in the U.S.

First of all, we have to work on right-sizing our infrastructure that had grown in size based on the pace of growth before the pandemic, in order to be aligned with today's mature markets. Another thing is, as you have just commented, we are very concerned that the value of our key brands is not properly communicated to consumers. So we are working on initiatives to enhance brand equity of our key brands to drive growth while undergoing structural reforms that provide basis of a foundation for how we operate and manage our business. So, those are the two issues that we are focusing our efforts on. The effects of our initiatives have also been reflected in the Action Plan, and we are also planning to incorporate that in the up-coming medium-term plan, which is scheduled to be announced by the end of this year.

**Miyazaki [Q]:** Thank you so much for your explanation. The next medium-term plan will be implemented starting the next year or from 2027?

**Hatanaka [A]:** The current medium-term plan "SHIFT 2025 and Beyond" will be in effect until the end of 2025. That means the upcoming medium-term plan will start in 2026. That is what we are now discussing with the execution team.

**Miyazaki [M]:** Noted, thank you so much for your explanation.

**Oshima [M]:** Thank you for that, so moving on to the next question. Oliver Matthew?

**Oliver [Q]\*:** Thank you. About the new medium-term plan, more of a comment, but now you have put in place a new remuneration system for management and staff linked to the share price. I think the amount is too small given the huge changes that need to be made. Would the Compensation Committee consider a much larger share price-linked package? I believe you disclosed the amount recently as JPY1 billion, but this seems to be missing maybe by a factor of 10 or 20 to try to get the kind of teamwork needed across the Company. I hope you can consider now you are in the right direction on remuneration, a much larger and more significant package that would connect shareholders to management incentives. Thank you.

**Hatanaka [A]:** Thank you for your comment. With regard to management incentives, it is extremely important to provide effective incentives to CEO, and that is a key message of what other management members are expected by the Board.

Looking at the current situation, on the other hand, in light of the fact that our ROIC is not exceeding our WACC, we will consider a scale of the remuneration system that will allow us to grow business results even more significantly, bearing in mind the trends in our historical business performance. We would also like to consider the extent to which, for example, we will expand share price-linked remuneration.

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While this is not something that the Board of Directors or the Compensation Committee should consider, but we have of course requested the management team to offer a competitive compensation package to employees as well.

**Yamanaka [Q]:** SMBC Nikko, Yamanaka speaking. Thank you for this precious opportunity. If you do not mind me asking, what was the content of the discussion that required most time recently? In addition, you have adopted new performance indicators for long-term incentives, does that mean the focus is now shifting to long-term growth as part of the changes that are occurring in management, or is focus still given on the structural reforms? Could you tell us about how you evaluate changes in management around that? Thank you.

**Hatanaka [A]:** Thank you. First of all, I would like to answer to your first question. I personally believe that the key topic the Board has had focused on is the medium to long-term growth scenario, along with the progress on the Action Plan, the rebuilding of brand equity, and geopolitical risks. These are the biggest topics or agendas that we have spent a lot of time on.

Regarding how our perspectives have changed, including changes in the remuneration system mentioned earlier, first of all, CEO Fujiwara's message is to complete the implementation of Action Plan, and make sure that will lead to future growth. He is emphasizing how two objectives are clearly interconnected. The Board of Directors is also placing importance on future growth, but it is of our utmost priority to make a turnaround from the current low profit condition as soon as possible to rebuild resilient business model as a basis. Among them, as incorporated in the Action Plan, we will invest in marketing further while staying focused on growth, and those are the messages communicated directly from the CEO throughout the organization.

The point is not about whether there have been any changes by the remuneration plan, but rather, I believe the Action Plan and the long-term growth are interconnected and that is how they are understood by our employees.

**Oshima [M]:** Thank you very much. We will take one last question, and I would like to pick that last question from Mr. Manabe on the chat.

**Manabe [Q]:** While ROIC remains below WACC and the Company is placing its utmost priority on profitability improvement, there is no major change in the cost structure. What are the possible reasons why fundamental structural reforms have not been implemented?

**Hatanaka [A]:** Thank you very much for this question. As I have repeatedly mentioned, we have great concerns about the current profitability level and have a strong sense of urgency. We are also working on structural reforms in the regions in order, but we are also doing that in all aspects of the business, including how manufacturing is being managed.

It is taking quite a bit of time for us to implement reforms as we are a highly globalized company, and we hear that investors and participants in capital markets are concerned that the progress is very slow. However, we believe that achieving the goals laid out in the Action Plan 2025-2026 will lead to significant growth in the future, and I hope that you will give us some time and recognize what we have actually accomplished through the progress.

[END]

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