

SHISEIDO Co., Ltd.

FY2013 First Half

Results and Outlook

2013-10-31

Shinzo Maeda

Representative Director,
Chairman, President & CEO

In this document, statements other than historical facts are forward-looking statements that reflect our plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause actual results and achievements to differ from those anticipated in these statements.

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Today's Topics

1

First-Half Results

2

Outlook for FY2013

2

First Half Results (Ended September 2013)



(Billion yen)	Results	YoY % Change	Local Currency	YoY Amount	Difference from July Forecast
Net Sales	360.5	+8.1%	-1.3%	+26.9	+0.5
Domestic	181.9	-2.5%	-2.7%	-4.8	-5.1
Overseas	178.6	+21.5%	+0.5%	+31.6	+5.6
Operating Income	20.4	+144.4%	+97.8%	+12.0	+5.4
Ordinary Income	21.0	+151.7%	—	+12.7	+6.0
Extraordinary Income/Loss	-7.9	(-0.8)	—	-7.1	-7.4
Net Income	5.4	+7.1%	—	+0.4	-1.6

The figure in parentheses is the amount in the previous fiscal year.

- Overseas Sales Ratio **49.6% (+5.5%)**
- Operating Margin **5.7% (+3.2%)**
- Exchange Rate **1 US\$ = ¥95.6 (+20%), 1 Euro = ¥125.5 (+21%),
1 RMB = ¥15.5 (+22%)**

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1	First-Half Results
2	Outlook for FY2013

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Outlook for FY2013

(Billion yen)	Forecast	YoY % Change	Local Currency	YoY Amount	Difference from July Forecast
Net Sales	740.0	+9.2%	+0.0%	+62.3	+13.0
Domestic	367.0	-1.7%	-1.7%	-6.3	-9.0
Overseas	373.0	+22.5%	+2.1%	+68.5	+22.0
Operating Income	40.0	+53.6%	—	+14.0	+1.0
Ordinary Income	41.0	+44.3%	—	+12.6	+2.0
Extraordinary Income/Loss	-9.5	(-34.8)	—	+25.3	-8.5
Net Income	15.0	(-14.7)	—	+29.7	-5.0

The figure in parentheses is the amount in the previous fiscal year.

- Overseas Sales Ratio **50.4% (+5.5%)**
- Operating Margin **5.4% (+1.6%)**
- Exchange Rate **1 US\$ = ¥97 (+22%), 1 Euro = ¥127 (+24%),
1 RMB = ¥15.7 (+24%)**
- Dividend **Interim: ¥10 Year-end: ¥10 (plan)**

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Overcoming business challenges that are blocking growth and facing the next three-year business plan for achieving growth starting in April 2014



Introducing frameworks to prevent accumulation of store-level inventories

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Introducing frameworks to prevent accumulation of store-level inventories

Reform of business management	<ul style="list-style-type: none">● Only use store sales as a performance index for the assessment of employees● Exclude shipments of a sales subsidiary from the performance index● Introduction of new profit indicator
Revision of terms of contract for sales channels	<ul style="list-style-type: none">● Simplification of rebate structure● Determining the rebate criteria based solely on store sales● Introducing initiatives for reducing retailers' intensive purchasing at the end of the year and sales returns
Reform of merchandise policy and distribution	<ul style="list-style-type: none">● Release makeup products of limited quantities● Reducing minimum order units and number of units in a package for delivery to stores to a single item● Careful selection of stores for introduction of products

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Rationalization of inventory level in the market

Reduction of shipments (in September)

Recovery of inventory in the market (2nd Half)

Developing an environment in which store sales increase immediately leads to increase of shipments

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To make strong fields stronger

To make big fields bigger

To make more profits in profitable fields

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Professional Business

Professional business

One of SHISEIDO's core businesses,
providing absolute value in all aspects including service

Currently in exclusive talks with L'Oréal following
its offer to acquire the DECLÉOR and CARITA
businesses

Aiming to become a leader
in the professional industry in Asia

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Structural Reform

Reform of cost structure		Reform of business structure	
Effect of reduction in costs compared with costs for FY2011			
FY2013	1 st Half: 7 billion yen (Actual)	Reorganization of production bases	Steady progress
	Full-year: 11.5 billion yen (Planned)	Reorganization of R&D bases	Reorganization complete
FY2014	Total: More than 20 billion yen	Strengthening of HR and personnel cost management	Steady progress
		Global integration of functions	Steady progress

Prevailing in Three Markets

- 1 Japan
- 2 China
- 3 Bare Escentuals in the US

Japan: Brands/Lines

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Strengthening of communication in the prestige segment



Global brand SHISEIDO



clé de peau BEAUTÉ

For the strengthening of brands/lines in FY2014



Innovation of priority brands/lines

Introduction
of
brands/lines
to target
senior
customers

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Japan: Sales Channel

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Cosmetics specialty stores

- New specialty store measures
- Strengthening of *BENEFIQUE*

Department stores

- Strengthening of advertising and publicity
- Double counter strategy

Drugstores/GMS

- Company-specific alliances
- Strengthening of ability to make point-of-sale proposals (subsidiary specializing in retail support)

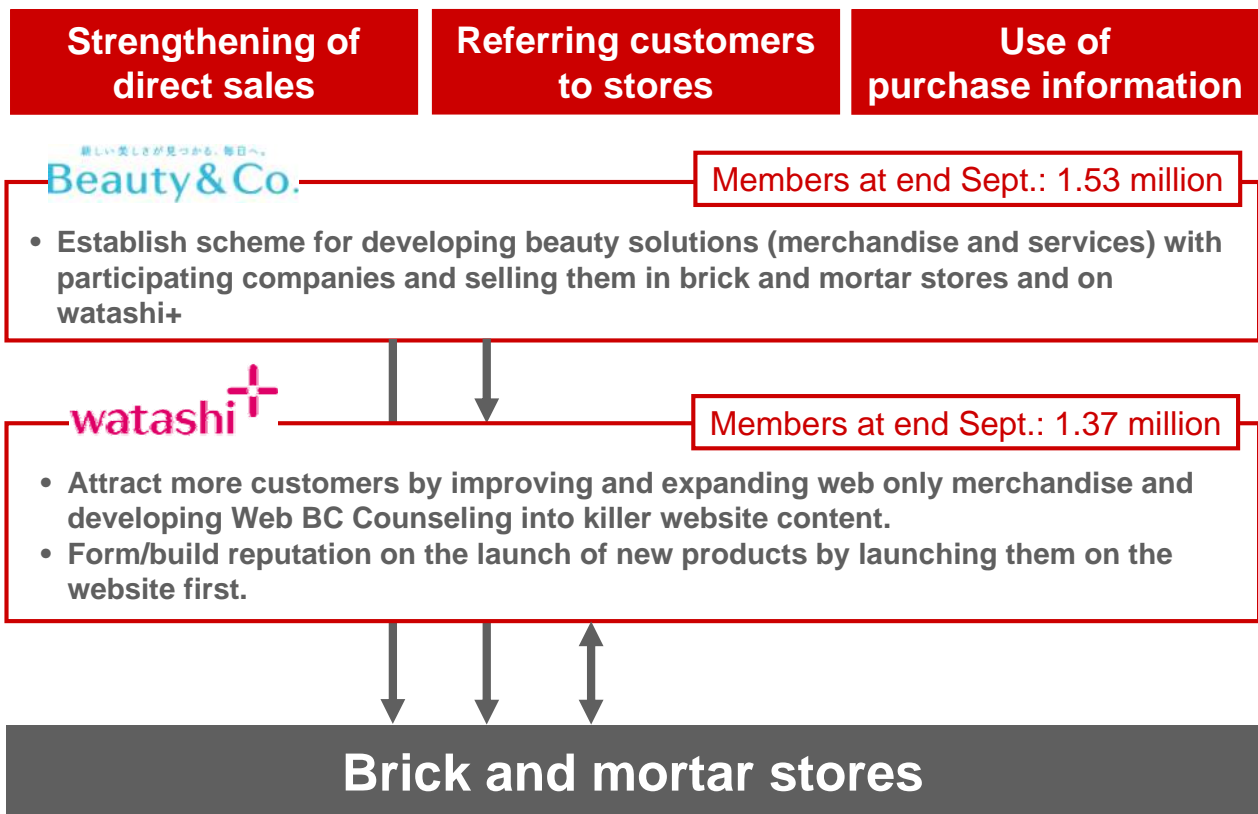


Revision of terms and conditions of contracts

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Japan: Web Based Marketing

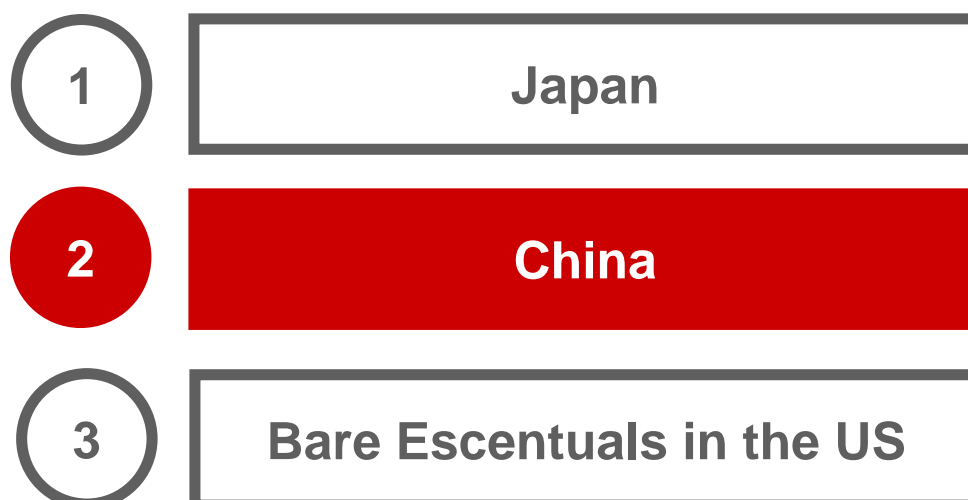
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Prevailing in Three Markets

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Focus on expansion in “locally produced brands in China” and “large coastal cities”



Rationalization of inventory level in the market



Reduction of shipments (2nd Half)

Expect second-half sales of mid single-digit growth and full-year sales on a par with the previous year

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China: Future Course

Priority development and consolidation of *AUPRES* and *URARA* (specialty store business), our strengths

Expansion of operations from 2 provinces that are current focus by adding 2 new provinces each year

Establish robust brands through relentless distinction and concentration and develop a lean management structure.

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Developing Operations in Priority Markets Following China

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India



- Established wholly owned subsidiary (July)
- Plan to start selling "Za" in April 2014

7 Middle Eastern Countries



- Will establish joint venture with CREATION (local distributor)
- Will start direct operations in 7 Middle Eastern countries

Indonesia



- Will establish joint venture in early 2014

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Prevailing in Three Markets

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1

Japan

2

China

3

Bare Escentuals in the US

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Rationalization of number of stores and expansion of per-store sales

Strengthening of products



Introduction of new color makeup products

Strengthening of communication

GOBARE
TOUR OF AMERICA 2013
we're hitting the road to bring you your best skin ever



Staging of events in 6 cities across America

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Strengthening of synergy between DTC business and retail business

DTC Business

- Modification of infomercial broadcasting program
- Development of exclusive merchandize for QVC

Retail Business

- Introduction of exclusive products for specific chains
- Strengthening of store personnel training structure

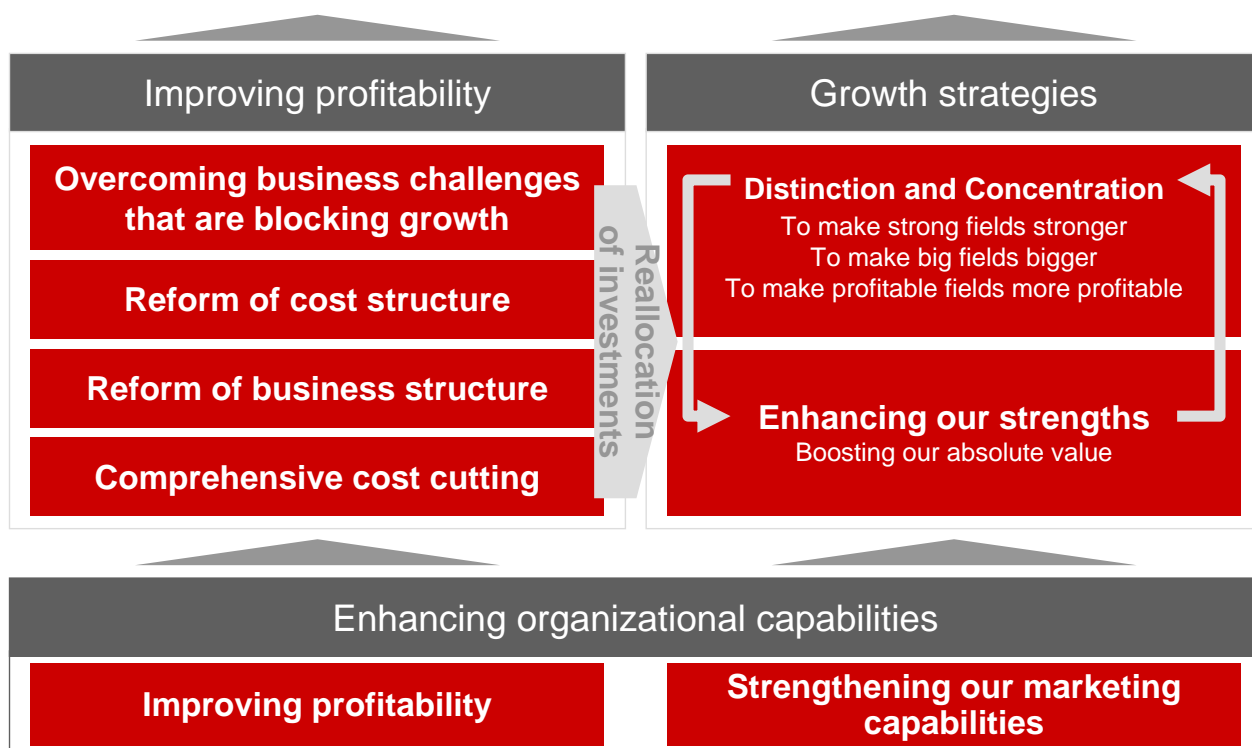
Lay the foundations for growth from now through FY2014, and aim for an acceleration of growth and an improvement in profitability from FY2015.

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Medium-Term Management Policy

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A global player representing Asia with its origins in Japan



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This moment. This life. Beautifully. 

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Sales by Reportable Segment

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(Billion yen)	13/9 Result		12/9 Result		YoY % Change	Local Currency
		% of Net Sales		% of Net Sales		
Domestic Cosmetics	168.9	46.8%	173.4	52.0%	-2.6%	-2.6%
Global Business	186.9	51.9%	155.7	46.7%	+20.1%	+0.0%
Others	4.7	1.3%	4.5	1.3%	+2.5%	+ 2.5%
Total	360.5	100%	333.6	100%	+ 8.1%	-1.3%

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Domestic Cosmetics Sales by Reportable Segment

SHISEIDO

(Billion yen)	13/9 Result		12/9 Result		YoY Amount	YoY % Change
		% of Net Sales		% of Net Sales		
Counseling	84.9	23.6%	86.7	26.0%	-1.8	-2.1%
Self-selection	38.8	10.7%	40.8	12.2%	-2.0	-5.0%
Toiletries	19.6	5.4%	20.5	6.2%	-0.9	-4.2%
Cosmetics	143.3	39.7%	148.0	44.4%	-4.7	-3.2%
Healthcare	8.0	2.2%	7.8	2.3%	+0.2	+2.4%
Others	17.6	4.9%	17.6	5.3%	+0.1	+0.3%
Domestic Cosmetics	168.9	46.8%	173.4	52.0%	-4.5	-2.6%

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Global Business Sales by Reportable Segment



(Billion yen)		13/9 Result		12/9 Result		YoY Amount	YoY % Change	Local Currency
			% of Net Sales		% of Net Sales			
	Cosmetics	163.6	45.4%	135.6	40.7%	+28.0	+20.7%	-0.3%
	Professional	23.3	6.5%	20.1	6.0%	+3.2	+15.9%	+2.6%
	Global Business	186.9	51.9%	155.7	46.7%	+31.2	+20.1%	+0.0%

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Sales by Geographic Segment



(Billion yen)		13/9 Result		12/9 Result		YoY Amount	YoY % Change	Local Currency
			% of Net Sales		% of Net Sales			
	Japan	181.9	50.4%	186.6	55.9%	-4.8	-2.5%	-2.7%
	Americas	55.1	15.3%	43.9	13.2%	+11.2	+25.5%	+4.7%
	Europe	45.9	12.7%	36.8	11.0%	+9.0	+24.5%	+2.9%
	Asia/Oceania	77.7	21.6%	66.3	19.9%	+11.4	+17.2%	-3.7%
	Overseas	178.6	49.6%	147.0	44.1%	+31.6	+21.5%	+0.5%
	Total	360.5	100%	333.6	100%	+26.9	+8.1%	-1.3%

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Cost of Sales/ SG&A

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(Billion yen)	13/9 Result			12/9 Result		YoY Increase /Decrease +:cost cut	YoY % Change
		% of Net Sales	% pt. Change +:decrease		% of Net Sales		
Cost of Sales	89.6	24.9%	-1.5%	78.1	23.4%	-11.5	+14.7%
SG&A	250.5	69.4%	+4.7%	247.2	74.1%	-3.3	+1.3%
(Domestic)	132.5	73.1%	+4.6%	144.1	77.7%	+11.6	-8.1%
(Overseas)	118.0	65.8%	+3.8%	103.0	69.6%	-14.9	+14.5%
Advertising & Selling	79.0	21.9%	+2.6%	81.7	24.5%	+2.7	-3.3%
Personnel	88.2	24.5%	+1.2%	85.8	25.7%	-2.4	+2.8%
Others	78.8	21.8%	+0.7%	75.1	22.5%	-3.7	+5.0%
M&A-related Amortization Cost	4.4	1.2%	+0.2%	4.5	1.4%	+0.1	-2.3%

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Operating Income by Reportable Segment

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(Billion yen)		13/9 Result	12/9 Result	YoY Amount	YoY % Change
Domestic Cosmetics	Operating Income	17.1	13.6	+3.6	+26.3%
	OP Margin	10.1%	7.8%	+2.3 pp	
Global Business	Operating Income before Amortization	6.3	-1.6	+7.9	-
	Operating Income	2.0	-6.1	+8.0	-
	OP Margin	1.0%	-3.9%	+4.9 pp	
Others	Operating Income	0.9	0.9	+0.1	+7.4%
	OP Margin	13.0%	12.1%	+0.9 pp	
Elimination	Operating Income	0.4	-0.0	+0.4	-
Total	Operating Income before Amortization	24.8	12.9	+11.9	+92.7%
	Operating Income	20.4	8.3	+12.0	+144.4%
	OP Margin	5.7%	2.5%	+3.2 pp	

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Consolidated Balance Sheets

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(Billion yen)	13/9	Change from 13/3	Excluding Foreign Currency Exchange	Foreign Currency Exchange
Total Current Assets	360.0	+27.4	+3.2	+24.2
Cash Deposits and Securities	117.5	+26.3	+18.5	+7.7
Notes & Accounts Receivable	110.2	-8.1	-15.5	+7.4
Inventories	90.0	+5.5	-1.7	+7.2
Total Fixed Assets	395.4	+12.5	-12.7	+25.2
Property Plant and Equipment	132.8	+5.0	-0.8	+5.8
Intangible Assets	162.7	+12.0	-6.1	+18.1
Investments and Other Assets	99.9	-4.5	-5.9	+1.4
Total Assets	755.5	+39.9	-9.6	+49.4

US1\$= ¥98.6 1€= ¥128.6 1RMB=¥16.1 (2013/9)
US1\$= ¥86.6 1€= ¥114.7 1RMB=¥13.9 (2013/3)

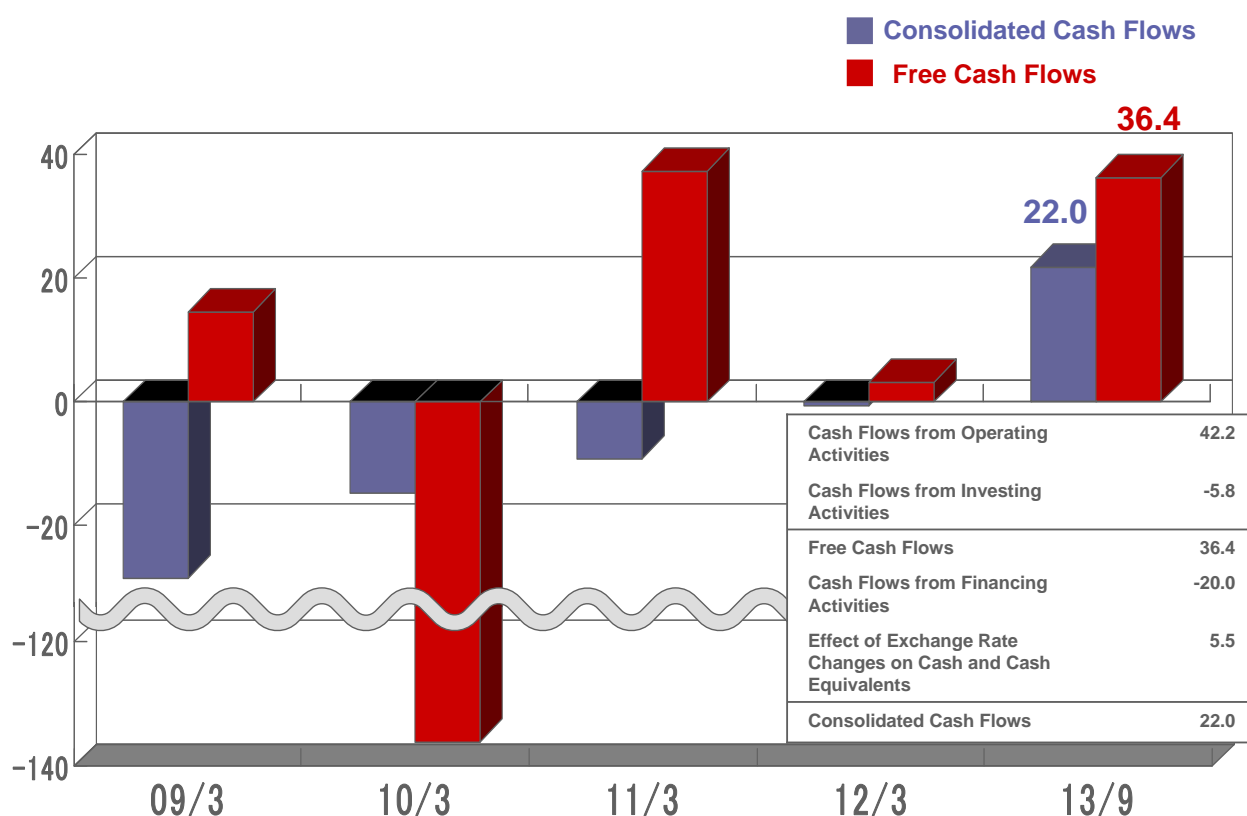
(Billion yen)	13/9	Change from 13/3	Excluding Foreign Currency Exchange	Foreign Currency Exchange
Total Liabilities	418.8	+6.3	-7.8	+14.1
Notes & Accounts Payable	47.6	+4.0	+1.8	+2.2
Other Payables	37.6	-2.0	-2.7	+0.7
Interest-bearing Debt	177.8	-6.9	-8.5	+1.6
Total Net Assets	336.7	+33.5	-1.8	+35.4
Shareholders' Equity	318.3	-4.3	-	-
Other Comprehensive Income	-0.9	+34.5	-	-
Minority Interests	18.5	+3.2	-	-
Total Liabilities and Net Assets	755.5	+39.9	-9.6	+49.4

*NOTE : Major accounts only
Equity Ratio: 42.0%, Interest-bearing Debt Ratio: 34.6% (13/9)
Equity Ratio: 40.1%, Interest-bearing Debt Ratio: 37.9% (13/3)

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Consolidated Cash Flows

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Supplemental Data

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(Billion yen)		13/9 Result	12/9 Result	YoY Amount Change	YoY % Change	14/3 Estimate	YoY Amount Change	YoY % Change
Investment in Plant and Equipment etc. *		14.0	13.3	+0.7	+5%	31.7	+3.4	+12%
	Property Plant and Equipment	10.0	8.3	+1.7	+20%	21.6	+3.7	+21%
	Intangible Assets etc.	4.0	5.0	-1.0	-19%	10.1	-0.3	-3%
Depreciation		16.6	15.9	+0.7	+4%	32.5	+0.5	+2%
	Property Plant and Equipment	8.8	8.6	+0.2	+2%	18.0	+0.8	+5%
	Intangible Assets etc.	7.8	7.3	+0.5	+7%	14.5	-0.3	-2%
R&D Expenses		6.6	7.0	-0.4	-6%	13.6	-0.0	-0%
Advertising Expenses		22.6	24.9	-2.3	-9%	43.8	-3.8	-8%

*Capital investment, investment in property plant and equipment, long-term prepaid expenses and intangible asset excluding goodwill and trademarks, etc.

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Supplemental Data

SG&A -Breakdown by Domestic/Overseas

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(Billion yen)		13/9	12/9	YoY Increase /Decrease +/-cost cut	YoY % Change
	Domestic	39.5	43.6	+4.0	-9.2%
	Overseas	39.4	38.1	-1.3	+3.4%
Advertising & Selling		79.0	81.7	+2.7	-3.3%
	Domestic	51.6	56.4	+4.8	-8.5%
	Overseas	36.6	29.5	-7.2	+24.3%
Personnel		88.2	85.8	-2.4	+2.8%
	Domestic	41.3	44.1	+2.8	-6.4%
	Overseas	37.5	31.0	-6.6	+21.3%
Others		78.8	75.1	-3.7	+5.0%
	Domestic	0.1	0.1	+/- 0.0	+/-0.0%
	Overseas	4.4	4.5	+0.1	-2.4%
M&A-related Amortization Cost		4.4	4.5	+0.1	-2.3%
	Domestic	132.5	144.1	+11.6	-8.1%
	Overseas	118.0	103.0	-14.9	+14.5%
Total		250.5	247.2	-3.3	+1.3%

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