July 31, 2015

Shiseido Co., Ltd

Q&A for the First Quarter of the Fiscal Year Ending December 31, 2015 (Summary)

[About consolidated operating results]

Q) Please describe a domestic/overseas breakdown of the upward revision of the first-half operating income and the full-year operating income forecast.

A) The upward revision of the first-half operating income by 7.0 billion yen consists of 6.0 billion yen in Japan and 1.5 billion yen overseas, which was offset by the elimination of 0.5 billion yen. As for the upward revision of full-year operating income forecast by 2.0 billion yen, the income in Japan was revised up by 5.0 billion yen, while overseas operating income was revised down by 3.0 billion yen.

Q) What are the factors for the decline of the second-quarter operating income by 3.0 billion yen?

A) There are three factors: optimization of market inventories in China, reactionary fall from the launch of *BARESKIN* in the previous year in the United States, and increased marketing investments in Japan and overseas. The second quarter has ended in overseas markets, so it depends on sales in Japan.

Q) You said that you will set aside one third of the 7.0 billion-yen increase in first-half operating income compared to the forecast for additional marketing investments and another one third for structural reforms. Please give some details.

A) For example, we are considering system integration in each area.

Q) Can we assume that actual results in overseas markets are reflected in the outlook for the first half? In that case, can we assume that the actual first-half results depend on your performance in the domestic market?

A) Yes, you can. For overseas markets, we have factored in actual results and exchange rate fluctuations. As for the domestic market, our performance in August last year struggled because of the bad weather. We hope for better results this year.

[About the domestic situation]

Q) To what extent did sales to inbound tourists and brand innovation contribute to the upward revision of domestic net sales at 8.0 billion yen, respectively?

A) We believe that inbound sales contributed to 60% of the increase and the rest is attributable to the brand innovation and other factors. The revision also reflects the negative impact of the sale of the *AYURA* brand. Because we started to innovate our brands in the third quarter of the previous year, it will not be easy to achieve the second-half target of 5% growth. The key lies in whether *ELIXIR* and *MAQuillAGE*, which we innovated last year, will yield better results than the previous year.

Q) What were the details of marketing investments in Japan in the first half? What will be the purpose of the additional marketing investments you plan to make in Japan during the second half?

A) All of the investments target consumers. We have invested in advertisements, sales counters, samples, testers, and events, for example. On the other hand, trade-related costs including rebates were decreased.

We have been changing the balance of investments flexibly in accordance with the sales situations. For example, we made an additional investment in skin lotion and emulsion which we launched in February from *HAKU*, a skin brightening brand, in response to their strong sales. We also stepped up investments in *PRIOR* and *ELIXIR*.

[About inbound sales]

Q) What effect will sales to inbound tourists have on the full-year results?

A) As announced in our financial results in April, we expected that full-year (nine-month) sales to inbound tourists in Japan Business in fiscal 2015 would be 10.0 billion yen on a retail basis and around 7.0 billion yen on a wholesale basis, respectively. At present, however, (nine-month) inbound sales have been growing significantly, at higher-than-expected rates and we expect the result to exceed 11.0 billion yen on a wholesale basis on the strength of sales of brands in the mid- to high-price range, especially at urban department stores and drug stores.

In addition, sales in Japan Business on a retail basis are around 15.0 billion yen, and an effect of approx. 25.0 billion yen is expected when sales at duty-free shops are included.

Q) What is the breakdown of inbound sales in the first quarter? Are they higher than the initial forecast?

A) In the domestic market, inbound sales were around 4.0 billion yen on a wholesale basis. Inbound sales by our subsidiary The Ginza were between 1.5 billion yen and 2.0 billion yen. They are higher than the initial forecast.

Q) Are sales to inbound tourists likely to bit in fact a bit higher considering the current momentum?

A) We are watching the trends of sales to inbound tourists. Because the brand innovation was started in the second half of last year, we expect demand to be saturated in the second half of this year. This point is reflected in the prospect.

Q) You said that *ANESSA* contributed to sales to inbound tourists. Are you planning its overseas expansion?

A) We think this brand is worth marketing in Asia. However, we need to strengthen the brand itself before we do so. We think it will take a while.

[Situations in overseas markets]

Q) What is the situation in each region with regard to the increase in the operating income of Global Business at 5.8 billion yen?

A) Compared to the outlook as of the beginning of the fiscal year, the actual results in China were slightly lower and those in Asia were slightly higher. Our performance in Europe was strong, driven by BPI (fragrance business) in particular.

Q) Why did you revise down the estimated overseas operating income? Did you factor in the income in China?

A) We factored in the enhancement of marketing investments, further structural reforms, and others, in addition to the deferred costs from the first half. Structural reforms, including those in China, have been making progress in line with our initial plans.

Q) You have continued to appoint external human resources. What is the key point of your personnel selection?

A) For the top position in each area, we have selected human resources who have strength in marketing and branding. Mr. Marc Rey, who will assume the President and CEO, Shiseido Americas, will engage in comprehensive management of brands such as *NARS* and *bareMinerals*, as well as the global brand *SHISEIDO*.

Mr. Louis Desazars, who will be assigned to the President and CEO, Shiseido Europe, the Middle East and Africa, is also going to manage BPI, the activities for which are carried out mainly in Europe.

[Situation in China]

Q) What influence do you expect from the price adjustment in response to China's tariff reduction?

A) Only six items will be subject to price reduction. We believe the influence will not be particularly significant.

Q) Can we assume that the optimization of store-level inventory in China is complete?

A) We believe that the optimization of inventory held by distributors has almost finished.

Q) How far has e-commerce in China grown?

A) It has been making progress as we planned. We expect growth of around 40% for the current fiscal year.

Q) Isn't it difficult to achieve annual growth at 8% in China in the current fiscal year, given that business conditions in China have been growing more difficult?

A) The growth of *AUPRES* is the key point of our growth in China. Currently, *clé de peau BEAUTÉ* and the global brand *SHISEIDO* have been growing. On the other hand, the *AUPRES* result was below the plan for the first half, so we will strengthen this brand in the second half.

Q) Will you start innovating *AUPRES* in September? Is the strengthening of the *Time Lock* line aimed at rebranding *AUPRES*? What about the current status of the line for teenagers that you launched last year?

A) The line for young people launched last year has not yielded very good results. This we believe has obscured the image of the *AUPRES* brand. This is why we are planning rebranding now.

The renewal of the *Time Lock* line planned in September will be the enhancement of a core line whose sales account for 30% of the brand's sales.

Q) What is the management structure in China like? What is the role of Mr. Ralph Ahrbeck, the general representative in China?

A) Mr. Ralph Ahrbeck is responsible for both SCH and SLC, our local subsidiaries in China. He has experience in finance and marketing. For e-commerce, we invited a new department head. Reforms of sales activities and brands at SCH and SLC are led by Mr. Takano and Mr. Hori, respectively, who are the top people in the respective subsidiaries. The brand manager of *AUPRES*, who was appointed this year, is proceeding with rebranding.

Q) Will you add the costs for the reengineering business in China in the next fiscal year?

A) We have already included the costs in the three-year plan. We are planning to step up investments in China in the next fiscal year than we do in the current fiscal year.