Main Q&A at the Conference Call for Analysts and Institutional Investors for the First Nine Months of the Fiscal Year Ending December 31, 2016 (Summary)

[Japan business]
Q) Why did store sales in the three months of the third quarter in Japan underperform the market?
A) Prestige business and cosmetic specialty store business performed strongly, but brands in the low-priced range such as *AQUA LABEL* and *INTEGRATE* did not perform well. Personal care sales are not counted in store sales.

Q) You have a difficult job ahead of you in the fourth quarter given that your forecast for second-half sales in Japan is 3% growth?
A) Given that brands in the low-priced range did not achieve our expectations and we forecast fourth-quarter inbound sales on the same level as last year, we lowered our fourth-quarter sales forecast for Japan from the figure announced at the time of the second-quarter settlement, to growth of around 1%. We plan to offset this decline in areas such as China and the Travel Retail business, and our overall sales forecast is unchanged.

Q) The growth of cosmetic specialty stores in Japan continued. Did buyer sales still have an impact?
A) Regulation such as restriction on the number of units were implemented, and buyer sales decreased. In the third quarter, the new *Hydro Genius* serum of the *BENEFIQUE* brand sold well, partly due to the effects of TV commercials. Our business partners are also motivated and, through this, we intend to increase new customers and boost cosmetic specialty stores.
Q) What contribution do you expect Laura Mercier and DOLCE&GABBANA to make in FY2017?

A) For Laura Mercier, sales grew 15% in the first nine months of 2016, and we expect continued high growth in FY2017. There will be no one-time costs related to M&A such as those incurred in the current fiscal year and, including the amortization of goodwill amounting to 900 million yen, we would like to break even. For DOLCE&GABBANA, we will step up investments in the fourth quarter and continue increasing sales in FY2017. We expect DOLCE&GABBANA to make a large contribution to profit in the second half of FY2017 thanks to the start of production.

Q) Please give details of the one-time costs related to Bare Escentuals incurred in the third quarter and the fourth quarter.

A) One-time costs related to Bare Escentuals amounting to 1.5 billion yen were incurred in the third quarter. In the fourth quarter, we expect to 3.5 billion yen, but costs such as personnel expenses and removal expenses may be less than anticipated. We have no intention of reducing our investment in the acquired brand.

Q) How will you expand the bareMinerals business?

A) We will use our 200 directly operated stores to strengthen CRM and outlets. We will also increase sales through improvement in the productivity of BCs.

Q) Makeup business is doing well in the Americas. Please give details of the new management and marketing systems. How do you envisage topline growth in the future?

A) The management system is fully in place, including inviting professionals from outside the company. They are members who are strongly determined to achieve a double-digit operating margin through growth in sales and improvement in profitability, and we have high hopes. By channel, department store business is challenging but cosmetic specialty stores are performing strongly. The question of how to link directly operated stores and e-commerce is important. Next fiscal year, we will continue to step up investment in brands such as Laura Mercier, bareMinerals and NARS aiming to accelerate growth from FY2018 but, in the absence of one-time costs, the profit will increase.
Q) The profit margin of the Travel Retail business is 26%, which is extremely high. Please give details of the profit structure.

A) Compared with ordinary store operations, there is little media investment and the ratio of marketing costs to sales is low. The number of travel retail stores did not increase that much but since sales per store expanded and productivity per beauty consultant also rose, profitability improved from last year. Since compared with our rival companies in Europe and the U.S., we have fewer stores, we have substantial room for growth. We will also strengthen marketing in line with the purchasing behavior of the growing number of Chinese customers, taking a borderless approach to China, Japan, Asia and the travel retail business. Although not counted in the travel retail segment, sales of fragrances sold at tax-free stores by our subsidiary, Beauté Prestige International, and duty free stores in Japan also grew considerably and therefore, travel retail areas can be expected to contribute to profit in the future.

Q) In the Travel Retail business what brands will you invest in next after SHISEIDO and clé de peau BEAUTÉ?

A) We consider brands such as NARS and IPSA to be candidates. Brands that are performing well in Japan and China have potential for growth.

Q) Marketing costs in the first nine months increased 5.3 billion yen excluding the effect of foreign exchange. Please give a breakdown of marketing costs in Japan and overseas.

A) This breakdown between domestic and overseas is half and half. In the three months of the third quarter, marketing costs increased 1.0 billion yen and this includes a decrease of between 3 and 4 billion yen in marketing costs in Japan because the timing of promotions this year was moved to the fourth quarter.

Q) The effect of foreign exchange was not changed. What was the impact of the effect for operating income in the first nine months? Are fourth quarter foreign exchange rates within expectation?

A) We expect foreign exchange fluctuations to have a negative impact of between 5.5 and 6.0 billion yen. Given that we forecast a loss for the fourth quarter in Europe and the U.S. due to the structural reform of Bare Escentuals and increased investment in DOLCE&GABBANA, the effect of foreign exchange on operating income will be less in the fourth quarter than in the third quarter.
Q) You are making steady progress toward acceleration of growth from FY2018? Are there any remaining issues to be addressed?

A) We are making steady progress. We are communicating closely with each region and taking action to address the issues that were identified. Next fiscal year, we will further strengthen our business foundation for acceleration of growth from FY2018.