Q&A at the Conference Call for Analysts and Institutional Investors for the Third Quarter of the Fiscal Year Ending December 31, 2017 (Summary)

**Attendees:** Masahiko Uotani, Representative Director, President & CEO  
Norio Tadakawa, Corporate Officer, CFO

### [Q3 Results and Full-Year Forecast]

**Q)** Why did operating income grow significantly in the third quarter and yet profitability will be set to fall in the fourth quarter?

**A)** To begin with, there is the seasonal factor that profit is easily generated in the first and third quarters but not so easily generated in the second and fourth quarters. Also, in the fourth quarter, we will further strengthen our marketing investment. We plan to increase investment mainly into the Japan and China businesses and Dolce&Gabbana.

**Q)** What is the outlook for inbound sales?

**A)** Inbound sales are brisk, and we forecast growth of 47% year on year in the fourth quarter. As for our forecast for next fiscal year, we are currently in the process of formulating our plan, but we do not envisage any sharp slowdown.

**Q)** Looking at “Adjustments and other” in the breakdown of operating income by reportable segment, approximately how much do you expect this will be on a full-year basis?

**A)** We expect it to be slightly higher than the Q3 result.

### [China Business]

**Q)** China reportedly put limitations on group tours to Japan. Has this had any impact on Shiseido sales?

**A)** There was a media report that some of Chinese provincial cities began taking steps to limit group tours to Japan, but this has not had any impact on our inbound sales so far.

**Q)** You began the channel restructuring in the second half. When will the effect of this restructuring become apparent?

**A)** We are focusing on the channel restructuring for Za and Pure & Mild in the Cosmetics business. This fiscal year we expect to record one-time expenses associated with the
revision of agreements, but we think that profitability will improve from next fiscal year. The channel restructuring for Pure & Mild started from July, and we think the effect for Pure & Mild will show first.

[Asia Pacific Business]
Q) Sales in the Asia Pacific grew. Please give details of sales in each country/region.
A) In South Korea, sales grew by more than 20%. Growth momentum and profitability improved due to more localized marketing. In countries/regions with high sales such as Thailand and Taiwan, sales grew. In terms of brand, Prestige brands and SENKA drove growth.

Q) With Korean manufacturers making a comeback, what are Shiseido’s strengths?
A) We will improve product quality by strengthening R&D and we will also renovate store counters and revitalize contact points with consumers. In January next year, we will launch a new skincare line from brand SHISEIDO. It is true that we intend to assimilate the good aspects of Korean manufacturers.

[Bare Escentuals]
Q) What is your forecast for amortization expense associated with Bare Escentuals?
A) Annual amortization expense was around 70 million US dollars in FY2016, but we expect this to be around 30 million US dollars from 2018.

Q) How were sales in the third quarter?
A) Sales continued to show double-digit decline year on year.

Q) What is Bare Escentual’s channel structure like? How about profitability? When will the closures of boutiques take place?
A) The channel structure is 45% specialty stores, 30% boutiques, 10% e-commerce and around 15% other channels. This fiscal year, the Bare Escentuals business is expected to break even in terms of operating income before amortization. The closures of boutiques will take place from this year through to next year.

Q) How long will it take to turn Bare Escentuals around? What KPIs are you targeting?
A) We will increase the profitability of boutiques through store closing, and we will also focus on strengthening marketing including digitization. We will attach importance to digital-related KPIs such as the number of social media followers. There will be no reduction in marketing investment. Next year, sales will fall due to the impact of store
closures. We have drawn up a steady plan and, according to the plan, sales will increase in 2019 and 2020.

[EMEA Business]
Q) The EMEA business showed a profit in the third quarter. Was this due to a time lag between shipments for the holiday shopping season and promotional expenses?
A) Most shipments for the holiday shopping season are finished by the end of September, while promotions are held mainly in December. This fiscal year, we plan to increase investments especially in Dolce&Gabbana, and the fourth quarter is expected to show a loss. However, this will lead to sales growth from next year.

Q) Have the supply difficulties associated with Dolce&Gabbana been resolved?
A) Not 100%. We think there is still a little room for improvement and are working to resolve the difficulties completely.

Q) How were store sales for Dolce&Gabbana?
A) Store sales for the first nine months were down year on year partly due to a shortage of stock. However, store sales for the month of September improved and, in the fourth quarter, we hope to bring store sales to a higher level than a year ago.

Q) Will you focus on other Dolce&Gabbana categories besides fragrance?
A) Full-scale efforts will not start for another two years or so. We have not included other categories in the 2018 plan.

[Others]
Q) Sales in the Prestige business grew. Is this because the number of consumers increased or because the spend per consumer increased?
A) In the Prestige business, both the number of consumers and spend per consumer are increasing. As shown by the 47% new customer acquisition rate for wrinkle cream, recently new customers have increased. The high quality of our skincare products, which is Shiseido's strength, also means that consumers continue to use our products.

Q) clé de peau BEAUTÉ sales were reported to have grown 35%. Please give a breakdown of sales by region.
A) clé de peau BEAUTÉ looks set to become a brand with sales exceeding 100 billion yen in 2017. Japan used to account for 80% of sales, but now sales are also growing substantially in China and the Travel Retail segments as well as in Japan and the shares
of regions other than Japan are increasing.

Q) You commented that you are aiming for a double-digit operating margin in 2020. Can we expect that operating income will exceed the VISION 2020 target of 100 billion yen?

A) We are eager to achieve this. Every region shares a double-digit operating margin as a common target. Also on a consolidated basis, operating income is growing considerably on the back of sales growth. Our cost structure has also improved, and our cost ratio and the ratio of personnel expenses and other expenses are getting better than expected this fiscal year.