2018-20 Corporate Strategy & Plan
- Be a Global Winner with Our Heritage -

March 5, 2018

Masahiko Uotani
Representative Director, President & CEO
Shiseido Company, Limited
Shiseido Group Management Policy

To Be The Most TRUSTED Beauty Company

- Management with a mid/long-term perspective to create value for all stakeholders
- Contribution to society via beauty innovation with our businesses
- ESG-focused management

SHAREHOLDERS

EMPLOYEES

SOCIETY

GOVERNANCE
Beauty Can Change the World: Creating social value with our businesses

- More genuine smiles
- Support for the senior generation
- Support for the new grads and athletes
- Protecting skin from UV rays
- Protection from allergens
- Appearance care
- All-In-One Product
- Support for working women
- Empowering women
Roadmap to VISION 2020

2015-17
Rebuild the Business Foundation

2018-20
New Business Strategy to Accelerate Growth

CAGR
3~5%

CAGR
5~7%

¥ 1005.1B

OPM
10%+

B: Billion JPY
P: Plan
Acceleration of Growth Momentum

-0.4%  +1%  +4%  +5%  +16%

2013  2014  2015  2016  2017  2018

¥1 T

CAGR 2014-17 +9%

(Excluding currency exchange effect)

Over 20% (Jan 2018)
Achievements in 2015-17 / Issues to Tackle in 2018-20

1. Growth of global prestige brands
2. Portfolio reinforcement
3. Japan business back on growth track
4. Solid foundation for growth in China and TR businesses
5. Organizational integration and improved efficiency
6. Building a global management team

1. Stable product supply
2. Improvement of profitability in the Americas and EMEA businesses
   - Turnaround of bareMinerals
   - Stable growth of fragrance brand business
2018-20 Corporate Strategy and Plan
Consumers in 2020-2030

Consumer Change
- Diverse lifestyles
- Key countries: aging population
- Borderless connection of the young generations

Shift of Power to Consumers

Rise of Disruptive Technology
- Digitalization everywhere
- Spread of IoT and 3D printing technologies
- Healthcare Innovation

Shift of Economic Center
- Bigger China presence
- Rise of middle class (Asia)
- Influence of cities outside of their countries
- Local trends spread beyond borders

Accelerated Diversification of Beauty Values
Pursuit of Personalization

Industrial Structural Changes
- Spread of model that directly connects with consumers (D2C Model)
Prestige:
Market Size and Projected Growth Rate in 2020

China
¥1.6 T
14% (+11%)
7% (+7%)
79% (+10%)

Japan
¥1.6 T
30% (+3%)
3% (+5%)
67% (+2%)

Americas
¥3.9 T
32% (+6%)
34% (+7%)

EMEA
¥4.1 T
49% (+5%)
30% (+4%)
21% (+6%)

Asia Pacific
¥1.6 T
16% (+7%)
22% (+6%)
62% (+6%)

Travel Retail*
¥3.5 T
26% (+10%)
47% (+15%)
27% (+18%)

All Regions Total
¥12.8 T
29% (+5%)
46% (+6%)
25% (+6%)

*excluding TR

Source:
— Euromonitor forecast using current base, released in 2017
— Premium (Skincare/Suncare/Color/Fragrance)
— TR: Generation

CAGR 17-20
Projection

T: Trillion JPY
### 2018-20 Key Strategy “Building for the Future”

<table>
<thead>
<tr>
<th></th>
<th>1. Further “Selection and Concentration” of Brand Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Enhanced Sustainable Growth Based on “Prestige First” Strategy</td>
</tr>
<tr>
<td></td>
<td>• Acceleration of CPC (Cosmetics and Personal Care) Business Growth in Asia</td>
</tr>
<tr>
<td>2</td>
<td>Acceleration of Digitalization/New Business Development</td>
</tr>
<tr>
<td>3</td>
<td>New Value Creation through Innovation</td>
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<tr>
<td>4</td>
<td>Talent and Organization Development to Be a Global Winner: “PEOPLE FIRST”</td>
</tr>
<tr>
<td>5</td>
<td>New Global Management Model</td>
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</tbody>
</table>
1. Further “Selection and Concentration” of Brand Businesses
“Prestige First” Strategy

Solidifying the foundation of profitability with Skincare
Accelerating growth of Makeup and Fragrance
Three-year Incremental Sales by Brand Businesses

2017-20

71%

PRESTIGE +10%

COSMETICS +4%

FRAGRANCE +8%

PERSONAL CARE +9%

PROFESSIONAL +5%

Other 1%

CAGR 2017-20
Prestige: Three-year Incremental Sales by Category

- **FRAGRANCE**: +9%, 14%
- **MAKEUP**: +13%, 28%
- **SKINCARE**: +11%, 58%

CAGR 2017-20
Key Strategy

- Continuous delivery of product innovation
  - Nurture ULTIMUNE & Essential Energy into brand icons
  - Renew makeup lines in collaboration with Center of Excellence (“Makeup Big Bang”)
- Create personalized brand experience and touchpoints
- Key regions: increase users in Japan and Americas
- Strengthen cross-border marketing for Chinese consumers

**Target**

<table>
<thead>
<tr>
<th></th>
<th>2017–20</th>
<th>CAGR +12%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
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</tr>
</tbody>
</table>
Key Strategy

- Renew creatives for the brand to express global luxury
- Enhance digital marketing (CRM/Data-driven marketing)
- Strengthen investment and brand positioning in China and TR
- Re-entry to the EMEA market

Target

<table>
<thead>
<tr>
<th>Sales</th>
<th>2018</th>
<th>2020</th>
</tr>
</thead>
</table>

CAGR +12%

2017–20
Product Innovation

Revolutionary anti-wrinkle products
Contain ‘Pure Retinol’

Foundation
inspired by skincare that brings out the natural beauty of skin

Skincare
with focus on neuroscience that reawakens skin’s sensors
Recreate Brand Experience through Renewal of Consumer Touchpoints

**2018-20 TTL Investment**

¥57 B

- Upgrade of VMD
- Partnership with key retailers on merchandizing
- Expansion of brand shops
High Appeal to the Younger Generation
Cross-border Marketing for Chinese Consumers

- Increase of Chinese travelers globally*
  - 130 million ⇒ 160 million
    - 2017 ⇒ 2020

- Increase of Chinese visitors to Japan*
  - 7.35 million ⇒ 10 million
    - 2017 ⇒ 2020

- Total sales to Chinese consumers by Shiseido Group (All regions)
  - ¥ 240 B ⇒ ¥ 360 B
    - 2017 ⇒ 2020

*According to research by Shiseido
COSMETICS AND PERSONAL CARE BRANDS

ELIXIR  ANESSA  專科  INTEGRATE
Acceleration of CPC Brands Growth in Asia

1. Strengthening of engagement and trust in “made-in-Japan” brands
2. Strategic partnerships with key retailers
3. Development of high added value products through “selection and concentration”
Aggressive Investment in Marketing

2018-20 TTL Incremental Investment

¥120 B

Including strategic investment:
- Digital: ¥25 B+
- Store counters: ¥15 B+
- PR activities: ¥15 B+

¥245.7 B

2017 2018 2019 2020
Improving Productivity: Cost Structure Reform

2018-20 TTL Target

¥40 B

COG reduction (Product specs optimization/centralized procurement system)
Improvement of supply chain efficiency
Productivity improvement through system integration
Portfolio Reinforcement

1. “Selection and concentration” of businesses
2. Business/Capital alliances
3. M&A: Prestige brands/New technologies/New businesses
2. Acceleration of Digitalization / New Business Development
Expansion of E-Commerce (EC) Business

Sales ratio of EC in China

- 2017: 8%
- 2020: 15%

- Develop strategic partnership with key players
- Integrate EC and CRM

EC sales in Japan through Shiseido’s website

¥14B (2020)

Sales ratio of EC (2020)

40%

Acceleration of EC sales in the US market
Acquiring EC Capabilities

VIOLET GREY

- Investment in VIOLET GREY, EC retailer for luxury brands
- Prestige beauty EC site launched by Ms. Cassandra Grey in 2013
- Makeup artists endorse the products they actually use in Hollywood
Enhancement of Digital Marketing/CRM
New Business Development
Enhancing capabilities towards personalization

Brand range expansion (US)
Test marketing from 2018 (US)
Beta version launch in 2018 ("watashi+", Japan)
Work Style Evolution

- Training programs to develop digital literacy (led globally by Digital COE)
- Workplace renovation to improve productivity
- Data-driven KPI management

Digital Academy
A total of 5,000 participants by 2020

Office renovation
(HQ, Regional HQs)

KPI management by brand
ICT — One Shiseido Model

Reinforce the foundation of global business operations

- Redesign of business processes
- Integration of IT platforms
- Centralized data management

Standardization

2018-20 TTL Investment ¥27 B
3. New Value Creation through Innovation
Global Innovation Center will start operation this December!!

R&D Investment

- **R&D-to-sales ratio**: 3%
- **R&D staff headcount**: 1,500

2020
Acquiring Cutting-edge Technologies and Talents: Second Skin

Dr. Robert Langer  CEO, Amy Schulman

*Photographer (MIT/Olivo)
Exploring New Frontiers

- Virtual makeup
- Effective beauty foods/supplements
- Beauty devices
- Beauty counseling
- Digital beautifying contents
- Creating new beauty categories
- Hair regeneration
- Personalized beauty services

Creating new beauty categories
4. Talent and Organization Development to Be a Global Winner: “PEOPLE FIRST”
Increase Investment in Talent Development

● Leadership development
  ➢ Training & development program
  ➢ Comeback of study abroad program
  ➢ Recruitment of professional talent
  ➢ Global mobility
  ➢ Establishment of Asia Learning Center (Singapore)

● Promoting diversity
  ➢ 40% of female leaders by 2020 (Japan)

● English mandate
  ➢ 1,700 employees currently learning English

● Global HR database development

2018-20 TTL Investment
¥ 14 B
5. New Global Management Model
Global Management Model in Progress

【Phase 1】
～ 2015
International business managed by Japan HQ with Japanese expatriates

【Phase 2】
2016～
“Think Global, Act Local” Global Matrix Organization

【Phase 3】
2018～
“Connected Multi-Value Creation” model
"Connected Multi-Value Creation" Model

Evolution of COE*

CB: Cross-border Marketing COE (Shanghai)

BI: Business Innovation COE (Shanghai/Shenzhen)

LC: Learning Center COE (Singapore)

MC: Medical Cosmetics COE (Tokyo)

TIC: Technology Innovation Center COE (Boston)
Strategic Targets of Each Region

- Japan, China, Travel Retail and Asia Pacific
  Sustain and accelerate growth momentum and high profitability

- Americas and EMEA
  Improve profitability (Target OPM: 10%+)
  - Turnaround of bareMinerals
  - Stable growth of fragrance brand business
Three-year Incremental Sales by Regions

- **Americas**: +3%
- **Asia Pacific**: +9%
- **EMEA**: +10%
- **Travel Retail**: +22%
- **Professional**: +5%
- **Japan**: +4%
- **China**: +13%

CAGR 2017-20

2017-20

25%
2018-20 Business Plan

Sales

- **2018**
  - ¥1.033 T

  vs. LY
  - +3% (Local currency basis)
  - +8% (Like for Like basis*)

- **2020**
  - ¥1.2 T+

  CAGR 2017-20
  - +8% *

Operating Income

- **2018**
  - ¥90 B
  - OPM 8.7%

  vs. LY
  - +12%

- **2020**
  - ¥120 B +

  OPM 10% +

  CAGR 2017-20
  - +14%

STRETCH TARGET

- **2020**
  - ¥1.28 T+

  CAGR 2017-20
  - +10% *

  OPM 10% +

  CAGR 2017-20
  - +17%

*Like for Like basis excluding impact such as Zotos divestiture
Critical Issues: Rebuilding the Supply Network

**Background**

- V-shaped recovery in recent three years from a long-term down trend in sales
- Decrease of production capacity and cost reduction (closing down factories) due to sales drop

**Issues**

- SCM system and organization built on a long-term downward trend in production and the culture of cost reduction
- Issues to be solved
  - Production capacity of our own factories
  - Material supply matched with increasing demand
  - Production planning process to meet demand
Key Solutions

● Short-term
  ➢ Rationalization of SKUs
  ➢ Change of product specs
  ➢ Expansion of outsourcing
  ➢ Improvement of conditions for workers such as full-time employment and headcount increase
  ➢ Facility improvement
  ➢ Securing procurement of raw materials

● Mid-term
  ➢ Building new factories
  ➢ Strategic collaboration with key suppliers

2018-20 TTL Investment ¥130 B
Opportunities for Further Growth

**2018**
- SHISEIDO: Makeup renewal
- D&G: New fragrance line launch
- Enhancement of cross-border marketing
  - TR and inbound business in Japan
- EC business in China

**Toward 2020**
- Enhanced product innovation
  - SHISEIDO, CPB: Innovative new product launches
  - NARS, LM, D&G: brand expansion in Asia
  - Promoting sun care category
- Dynamic growth in EC
- Expansion of new businesses globally
- Drive inbound business globally

Supply chain network that accelerates growth
- Execute short-term initiatives
- Increase production capacity with Nasu Factory
Aspirations by 2030

Prestige within Top 3

Asia No. 1

Japan No. 1 indisputably
Regions
<Career brief>
Joined Shiseido in 2009 after working for Lion, Kodak (Japan), Kellogg (Japan), Coca-Cola (Japan), etc.

Shigekazu Sugiyama
President and CEO, Shiseido Japan
1 MARKET LANDSCAPE

Growth Market

- Prestige
- Inbound
- New categories
  ex: Anti-wrinkle, medical cosmetics, personalization, etc.

Source
- Euromonitor forecast in 2017
- Premium+Mass (Skincare/Suncare/Color/Fragrance and Hair Care, Deodorant, Bath & Shower, Other Sets/Kits)
2 TARGET

Market Position in 2020:

No. 1 in Japan

Establishment of a secure position

No. 2 position in 2017*

Sales

2017-20

CAGR +4%

(Like for Like)

2018

459

+6%

YoY

+7%

YoY (Like for Like)

OPM High-Teen

2020

490

Unit: BJPY

CAGR +4%

*According to research by Shiseido
3 STRATEGIC PRIORITIES

Skincare, Base makeup, Sun care
Focus on strategic three categories “Skin-Trinity”

Attuned to consumers’ purchasing styles
Expansion and enhancement of contact points

Leading a future market
Recruit the young & second baby-boomer generation

Achieve growth in all Asian markets
Cross-border Marketing

Create funds for future growth
Business Model Change
4 INBOUND STRATEGY

2018 Plan

64.5 B JPY  +10% vs.LY

● Cross-border Marketing
  CPB • SHISEIDO • ELIXIR • ANESSA • SENKA

● Multiple Touch Points
  Duty-free, Airport/TR, In-flight, Cross-border EC

● Multilingual personnel at Stores
  Enhance the language services including Chinese and other languages at stores

Source: Mitsubishi Research Institute Inbound forecast base plan (Mar. 2017)
Kentaro Fujiwara
President and CEO, Shiseido China

<Career brief>
Worked at the International Dept. of Shiseido Co., Ltd., Shiseido Korea, etc. Appointed President, Shiseido China in 2016.
MARKET LANDSCAPE

Key market trends for further growth

- Increase in consumption of young generation (b. 80s-00s)
- Growth of lower tier cities (Tier 3-4)
- World’s largest EC market

Market Size Projection – China Region

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (Unit: B JPY)</th>
<th>CAGR +7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>5,273</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>6,533</td>
<td></td>
</tr>
</tbody>
</table>

Source:
- Euromonitor forecast in 2017
- Premium + Mass (Skincare/Suncare/Color/Fragrance and Hair Care, Deodorant, Bath & Shower, Other Sets/Kits)
2 TARGET

Market Position in 2020:

Top 3

Sales

2017-20
CAGR +13%

2018
163
+14% YoY(LC basis)
+14% YoY (Like for Like)

OPM
High Single Digit

CAGR +13%
(Like for Like)

2020
204

OPM
Low-teen

Unit: B JPY

Source
— Euromonitor Forecast in 2017
— Premium+Mass (Skincare/Suncare/Color/Fragrance and Hair Care, Deodorant, Bath & Shower, Other Sets/Kits)
3. STRATEGIC PRIORITIES

Accelerate the Growth of Prestige Business
- Strengthen brand equity with localized marketing
- Enhance makeup category with growth acceleration of NARS

Expand into Tier 3-4 Cities
- Increase key counters by leveraging Group synergy (Prestige + Cosmetics brands)
- Enhance O2O (Online to Offline marketing)

Digital and EC Innovation
EC REINFORCEMENT

Role of EC
From a sales channel to a marketing platform

Our Challenges
Omni-Channel
Develop seamless brand experience

Exclusive
Trigger purchase intention

Personalization
Increase brand loyalty

Sales ratio of EC
2017: 26%
Approx: 40%
2020:

61
## 5 CHINA COSMETICS BUSINESS STRATEGY

<table>
<thead>
<tr>
<th>Brand</th>
<th>Strategy 1</th>
<th>Strategy 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUPRES</td>
<td>Reinforce sustainable growth</td>
<td>Strengthen digital and EC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Shift investment to Tier 3-4 cities</td>
</tr>
<tr>
<td>ZA</td>
<td>Improve profitability</td>
<td>Expand self-selection channels</td>
</tr>
<tr>
<td>PURE&amp;MILD</td>
<td></td>
<td>Expand new sales channels</td>
</tr>
<tr>
<td>ELIXIR</td>
<td>Expand brand awareness and business scale</td>
<td>Increase brand presence in major cities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expand into lower tier cities to increase brand trial</td>
</tr>
<tr>
<td>ANESSA</td>
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</tbody>
</table>
Philippe Lesné
President and CEO, Shiseido Travel Retail

<Career brief>
Joined Shiseido Europe in 2009 after working for LVMH, etc.
Market Landscape

- Driven by Asia Pacific 
  (Share by Region: 71% in 2020 vs 58% in 2017)
  CAGR 2017-20: +18%

- Driven by Skincare 
  (Share by Category: 47% by 2020 vs 42% in 2017)
  CAGR 2017-20: +15%

- Makeup most dynamic 
  (Share by Category: 27% by 2020 vs 22% in 2017)
  CAGR 2017-20: +18%

Market Size Projection – Travel Retail Worldwide

2017-20 CAGR: +10%

2017: 2,580 (vs.LY +9%)
2020: 3,463

Unit: B JPY

Source: Market Size & Growth, Cosmetics & Fragrances, Generation Research’s forecast (as of 2017 September)
Market Position in 2020:

4th

Shiseido RANK #6 in 2016

Target

Unit: B JPY

Note
- Ranking: Generation Research 2016 Actual
- Graph: Internal transaction price is partly changed in 2018 (Jan)
1. Drive Multi-brand Growth through Core and New Brands
2. Create Innovative and Traveler-centric Marketing through Data Insights and Digital Strategy
3. Achieve Sales Effectiveness through Relationships with Key Retailers and Retail Excellence Capability
Marc Rey
President and CEO, Shiseido Americas

<Career brief>
Joined Shiseido Americas in 2015 after working for Yves Saint Laurent Beauté USA, L’Oréal USA, Coty USA, etc.
**MARKET LANDSCAPE**

- **Projected Growth**
  - +6% to +8%
  - -1% to +1%

- **2017 Total Market**
  - 1,800 BJPY

- **CAGR 2017-20**

- **Fragrance**
  - 23%

- **Skincare**
  - 30%

- **Makeup**
  - 47%

**SHISEIDO Group**

- **US Market Share 7.7%**, *Rank No.3 (2017)*

**Source**
- NPD full year 2017 (Department Specialty Channel (Brick & Mortar plus retailer.com). Projection over 2017 to 2020/ According to research by Shiseido
2017-20 CAGR +2%

CAGR 3%
(Like for Like)

Sales
125

- 5%
YoY (LC basis)
+0%
YoY (Like for Like)

OPM
Break Even

2018

Unit: B JPY

138

OPM
Double digit

2020

Restated to exclude Burberry, ReVive and Affiliate Transfers
1. Drastically improve the profitability of the region to reach double digit %NS by 2020
   - bareMinerals turnaround
   - Channel management
   - Fixed cost optimization

2. Improve our position in the market through a strong Makeup push
   - Laura Mercier re-launch
   - bareMinerals rejuvenation
   - NARS, Buxom, CPB continued growth
   - Shiseido “Big Bang” (makeup)

3. Boost our Digital sales
   - CRM activation
   - Our own sites and retailer.com push
   - Pure player partnerships

4. “Fewer But Better” – Adapt our organization for the future in size, skills and agility
   - Disrupt in technology
   - Reallocate resources
   - Increase agility of the organization
Boost the appetite for the brand through sharpening the 360 positioning and social media takeover

Optimize multichannel footprint

Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2020</th>
</tr>
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<tbody>
<tr>
<td>Sales</td>
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</table>

CAGR +4%

Vs. LY -2%
BARE MINERALS HAS HIGH CONSUMER AWARENESS AND TRIAL, AND A LOYAL, MULTI-GENERATIONAL AUDIENCE

- Leading brand in the fast-growing natural makeup market
- Top 10 makeup brand in the US (#9 in 2017)
- Top 10 favorite brand with US millennial consumers
- #1 Loose Mineral Foundation in the US
- Double-digit growth in international markets

Strong Consumer Affinity for the Brand

<table>
<thead>
<tr>
<th>Category</th>
<th>27%</th>
<th>19%</th>
<th>24%</th>
<th>30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-29 years old</td>
<td>(28%)</td>
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<td></td>
<td></td>
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<tr>
<td>30-39 years old</td>
<td>(23%)</td>
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<tr>
<td>40-49 years old</td>
<td>(23%)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>50-59 years old</td>
<td>(26%)</td>
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</table>

Consumers are Evenly Distributed

SOURCE: Conde Nast; Kantar MillwardBrown Brand Tracking Report
Drive Global Profitable Growth

- Fuel brand equity and drive innovation
- Recruit and engage new consumers
- Accelerate global growth

Sales

2018 2020

CAGR +21%

2017-20

Target
Become The Next Global ¥100 B+ Brand

- Sharpen Brand Positioning & Codes
- Engage Clients with Innovation
- Step Change Brand Awareness & Trial
- Excellence In Execution
- Drive Global Distribution

Sales

2017-20 CAGR +20%

2018 2020
Franck Marilly
President and CEO, Shiseido EMEA

Career brief
Joined Shiseido EMEA in 2018 after working for CHANEL (Fragrance and Beauty Dept.), etc.
MARKET LANDSCAPE

European mature markets such as France, Italy and Germany will grow at a low single digit rate.

Market growth is driven by the United Kingdom, Russia and the Middle-East.

Growth mainly driven by Makeup followed by Fragrance and Skincare.

Source:
- Euromonitor forecast in 2017
- Premium (Skincare/Suncare/Color/Fragrance)

Market Size Projection – EMEA Premium Beauty Market

2017-20 CAGR +5%

2017: 3,526 (vs.LY +5%)
2020: 4,096

Unit: BJPY
TARGET

Target Market Position in 2020:

Top 5

2017 ranking* Top 5 countries

*NPD December 2017 top 4 (FR/UK/ES/IT – IRI for DE)
*Excluding Burberry

Sales

2018  OPM Break even
2020  OPM Double Digit

CAGR 10% (Like for Like*)
CAGR +9%

Unit: BJPY

143

115

+5% YoY (LC basis)
+8% YoY (Like for Like*)

CAGR 10%

+9%

2017-20

10% (Like for Like*)

143

Unit: BJPY

2017-20

CAGR +9%
3 STRATEGIC PRIORITIES

**Fragrance**
- Grow fragrance category profitably with double digit growth on Dolce&Gabbana and sustained development of narciso rodriguez
- Adapt each brand business model by market

**Skincare**
- Reinforce Shiseido brand awareness and equity
- Launch Clé de Peau Beauté in EMEA key countries in premium distribution

**Makeup**
- Grow category across Europe and Middle East markets
- Develop and elevate our footprint across the region

Optimize One Shiseido Organization to Maximize Efficiency
### Rebuild business foundation for long-term business perspective

- Reinforce actions in growing business area
  - Increase and optimize investment on key markets
  - Strengthen the market position of star items such as Light Blue
- Increase efficiency of distribution
- Grow revenue and brand awareness
  - Build strong base for men’s fragrance category leveraging new franchise
  - Relaunch makeup category

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<tr>
<th>Strategic Priorities</th>
<th>Target</th>
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<tr>
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<tr>
<td></td>
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2017-20
Jean-Philippe Charrier

President and CEO, Shiseido Asia Pacific

<Career brief>
Joined Shiseido in 2009 after working for L’Oréal Korea, L’Oréal Thailand, L’Oréal Singapore, etc.
1 MARKET LANDSCAPE

Market Size Projection – Asia Pacific Region

2017-20 CAGR +7%

5,539 (vs.LY +7%)

6,802

Unit: BJPY

4 focus market clusters /15 countries

Korea
- CAGR +5%
- Mass 52%
- Prestige 48%

Taiwan
- CAGR +3%
- Mass 43%
- Prestige 57%

ASEAN*
- CAGR +9%
- Mass 83%
- Prestige 17%

Oceania**
- CAGR +5%
- Mass 63%
- Prestige 37%

Source:
- Euromonitor forecast in 2017
- Premium+Mass (Skincare/Suncare/Color/Fragrance and Hair Care, Deodorant, Bath & Shower, Other Sets/Kits)
- * ASEAN (Thailand, Singapore, Malaysia, Vietnam Indonesia and Philippines) ** Oceania (Australia and New Zealand)

Note: 2017 Est
CAGR 2017-20
Market Position in 2020

Top 3 in Prestige

2017 #5 in Prestige market*

*According to research by Shiseido
3 STRATEGIC PRIORITIES

Omni-channel transformation to drive profitable growth of Prestige business

Diversify our distribution to be where our consumers are and develop new channels like Boutiques, Open-sell and EC

- Dept. stores
- Boutiques
- Open-Sell
- EC

Build CPC Brand portfolio with Japanese origin & strong differentiation

- Build relevant products and communication to fit Asian consumers
- Focus on High growth categories where Shiseido has strong advantage

- Cleanser & Moisturizer
- UV care
- Makeup

Acceleration of EC

- Partnership with major PurePlayers like LAZADA and Retailers.com like Sephora across South East Asia

- Pureplayer.com
- Retailer.com
2018 Forecast
2018-20 Financial Strategy

Norio Tadakawa
Corporate Executive Officer, CFO
Shiseido Company, Limited
2018 Forecast
## 2018 Forecast by Reportable Segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>Sales Forecast (Billion yen)</th>
<th>Organic growth in Local Currency % (existing business(^*))</th>
<th>Operating Profitability Forecast %</th>
<th>For reference 2017 Sales (existing business(^*))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>459.0</td>
<td>+7</td>
<td>High-teen</td>
<td>430.7</td>
</tr>
<tr>
<td>China</td>
<td>163.0</td>
<td>+14</td>
<td>High single digit</td>
<td>144.3</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>64.0</td>
<td>+9</td>
<td>Above 10%</td>
<td>59.9</td>
</tr>
<tr>
<td>Americas</td>
<td>125.0</td>
<td>+0</td>
<td>Break even</td>
<td>128.0</td>
</tr>
<tr>
<td>EMEA</td>
<td>115.0</td>
<td>+8</td>
<td>Break even</td>
<td>105.2</td>
</tr>
<tr>
<td>Travel Retail</td>
<td>74.0</td>
<td>+20</td>
<td>Mid-teen</td>
<td>62.4</td>
</tr>
<tr>
<td>Professional</td>
<td>21.0</td>
<td>+3</td>
<td>Low single digit</td>
<td>20.6</td>
</tr>
<tr>
<td>Other</td>
<td>12.0</td>
<td>-5</td>
<td>-</td>
<td>12.6</td>
</tr>
<tr>
<td>Total</td>
<td>1,033.0</td>
<td>+8</td>
<td>8.7%</td>
<td>963.5</td>
</tr>
</tbody>
</table>

\(^*)After reclassification due to organization changes and change of product distribution channels (see Supplemental Data 6-1 and 6-2) as well as excluding special factors such as Zotos business transferred in 2017.
## 2018 Forecasts

<table>
<thead>
<tr>
<th>(Billion yen)</th>
<th>2018</th>
<th>% of Net Sales</th>
<th>2017</th>
<th>YoY Change %</th>
<th>YoY Change in Local Currency %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>1,033.0</td>
<td>100</td>
<td>1,005.1</td>
<td>+2.8</td>
<td>+3</td>
</tr>
<tr>
<td>Operating Income</td>
<td>90.0</td>
<td>8.7</td>
<td>80.4</td>
<td>+11.9</td>
<td></td>
</tr>
<tr>
<td>Ordinary Income</td>
<td>90.0</td>
<td>8.7</td>
<td>80.3</td>
<td>+12.0</td>
<td></td>
</tr>
<tr>
<td>Extraordinary Income/Loss</td>
<td>-6.0</td>
<td>–</td>
<td>-41.8</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Net Income Attributable to Owners of Parent</td>
<td>54.0</td>
<td>5.2</td>
<td>22.7</td>
<td>+137.4</td>
<td></td>
</tr>
</tbody>
</table>

Expected ROE: 12.6%
Exchange rates: 2018 USD1=JPY110 (-2%), EUR1=JPY128 (+1%), CNY1=JPY16.5 (-1%)
2018-20 Financial Strategy
Review of Past 5 Years

**Net EBITDA**\(^1\) (Billion yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>2013/3</th>
<th>2014/3</th>
<th>2015/3</th>
<th>2016/12</th>
<th>2017/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>61.5</td>
<td>85.1</td>
<td>68.4</td>
<td>76.0</td>
<td>72.1</td>
</tr>
</tbody>
</table>

**Interest-Bearing Debt**

<table>
<thead>
<tr>
<th>Year</th>
<th>2013/3</th>
<th>2014/3</th>
<th>2015/3</th>
<th>2016/12</th>
<th>2017/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>37.9</td>
<td>30.3</td>
<td>20.7</td>
<td>17.3</td>
<td>15.4</td>
</tr>
</tbody>
</table>

**Interest-Bearing Debt Ratio (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2013/3</th>
<th>2014/3</th>
<th>2015/3</th>
<th>2016/12</th>
<th>2017/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>119.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Cash Generation Capacity ↑**

**Financial Soundness ↑**

**Inventory Turnover ↓**

\(^{1}\) Net EBITDA = Income before income taxes + Interest expense + Depreciation and amortization + Impairment loss on goodwill and other intangible assets. However, in this chart, cash inflows arising due to special factors such as business transfer, etc. are excluded.

\(^{2}\) CCC: Cash Conversion Cycle (days) = Receivables Turnover Period (days) + Inventory Turnover (days) - Payables Turnover Period (days) (average of each indicator during the period is used)
Aiming to Increase Corporate Value over the Medium-to-Long Term

Generation of operating cash flow
2017–2020 Cumulative Total
¥350+ B

Improvement of capital efficiency

- **ROE (2020)**: 14%+
- **ROIC (2020)**: 12%+
- **CCC (2020)**: 100 days or less

Priority #1
Aggressive investment in priority areas for sustainable growth over the mid-to-long term
Total investment in 2018-20: ¥300+ B
- New factories/SCM: ¥130 B
- Counters: ¥57 B
- Global Innovation Center: ¥32 B
- IT Infrastructure: ¥27 B etc.

Priority #2
Achievement of long-term stable and continuous dividend increases with improving in business results

Priority #3
Reduction of interest-bearing debt

Human Resources & Organizations
Maximization of Corporate Value
Marketing
Innovation
Improving Capital Efficiency

2020 Financial Targets

<table>
<thead>
<tr>
<th>ROE</th>
<th>ROIC(^1)</th>
<th>CCC(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>14%+</td>
<td>12%+</td>
<td>100 days or less</td>
</tr>
</tbody>
</table>

vs. cost of shareholders’ equity\(^3\) 5%

vs. WACC\(^3\) 4%

vs. CCC\((2017)\) 114 days

\(^1\) ROIC (Return On Invested Capital) = Operating Income \times (1 – Effective Tax Rate) / (Interest-bearing Debt + Shareholders’ Equity)

\(^2\) CCC: Cash Conversion Cycle (days) = Receivables Turnover Period (days) + Inventory Turnover (days) - Payables Turnover Period (days) (average of each indicator during the period is used)

\(^3\) The figures for cost of shareholder’s equity and WACC (Weighted Average Cost of Capital) are Shiseido’s estimates
Enhancing Profitability: Further Cost Structure Improvement

<table>
<thead>
<tr>
<th>% of Net sales</th>
<th>Cost of sales</th>
<th>Marketing costs (Excluding BC personnel expenses)</th>
<th>Brand development expenses and R&amp;D expenses</th>
<th>Personnel expenses</th>
<th>Other expenses</th>
<th>Operating income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>23.0</td>
<td>-1.0 to -1.5 pt</td>
<td>-1.8 to -2.3 pt</td>
<td>-1.4 to -1.9 pt</td>
<td>8.0</td>
<td>10.0+</td>
</tr>
<tr>
<td></td>
<td>24.4</td>
<td>+1.6 to +2.1 pt</td>
<td>+0.1 pt</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>23.0</td>
<td>21.5 to 22.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>21.5</td>
<td>21.5 to 22.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.5</td>
<td>5.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>15.4</td>
<td>13.5 to 14.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8.0</td>
<td>10.0+</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020 (Basic plan)</td>
<td>23.5</td>
<td>22.5 to 23.5</td>
<td>22.5 to 23.5</td>
<td>22.5 to 23.5</td>
<td>22.5 to 23.5</td>
<td>22.5 to 23.5</td>
</tr>
</tbody>
</table>

- **Expansion of topline** through increased marketing investment
- **Improvement of COGs ratio** through expansion of prestige brands/skincare
- **Reduction of ratio of personnel expenses and other expenses** through expansion of topline and improvement of productivity
- **Towards cost structure enabling operating profitability of 10%+**

- Cost of sales
- Marketing costs (Excluding BC personnel expenses)
- Brand development expenses and R&D expenses
- Personnel expenses
- Other expenses
- Operating income
Enhancing Capital Efficiency: Improvement of CCC through Proper Inventory Management

- Days Inventory Outstanding (2020) 180 days or less vs. CCC (2017) 114 days

- Receivables Turnover Period
- Payables Turnover Period

- Product
  - Reduction of SKUs/Strengthening of per-SKU efficiency management
  - Improvement of forecasts accuracy
  - Reinforcement of inventory management through investment in IT infrastructure
  - Shortening procurement, production and supply lead time

- Raw Materials

- Work-in-Process
Improving ROIC and Efficiency of Balance Sheet towards 2020

- Expansion of assets through strengthening of investment/
  Securing healthy liquidity on hand
- Reduction of inventories/
  Disposal of idle assets/
  Liquidation of strategic shareholdings
- Target capital structure:
  Debt-to-equity ratio 0.3
  Interest-bearing debt to EBITDA 1.0 times
- Achieving ROIC of 12%+
  exceeding WACC of 4%
Change in Shareholder Return Policy

Realization of total returns comprising direct returns to shareholders and medium-to-long term share price gains

Before

- Consolidated business results
- Free cash flow
- Target medium-term consolidated dividend payout ratio of 40%

After

- Consolidated business results
- Free cash flow
- Long-term, stable and continuous dividend increase targeting: DOE* of 2.5% or higher

2018 Dividend (plan) ¥30 per share
Increase of ¥2.5 from 2017

* DOE (Dividend On Equity) = Annual Cash Dividend / Equity
## Supplemental Data 1: 2018 Sales Forecast by Reportable Segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>2018 (Billion yen)</th>
<th>For reference 2017 (After reclassification)</th>
<th>YoY Change % (After reclassification)</th>
<th>YoY Change in Local Currency % (After reclassification)</th>
<th>2017 (Before reclassification)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>459.0</td>
<td>431.6</td>
<td>+27.4</td>
<td>+6.3</td>
<td>431.0</td>
</tr>
<tr>
<td>China</td>
<td>163.0</td>
<td>144.3</td>
<td>+18.7</td>
<td>+13.0</td>
<td>144.3</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>64.0</td>
<td>59.9</td>
<td>+4.1</td>
<td>+6.9</td>
<td>54.2</td>
</tr>
<tr>
<td>Americas</td>
<td>125.0</td>
<td>134.1</td>
<td>-9.1</td>
<td>-6.8</td>
<td>140.4</td>
</tr>
<tr>
<td>EMEA</td>
<td>115.0</td>
<td>108.5</td>
<td>+6.5</td>
<td>+6.0</td>
<td>128.4</td>
</tr>
<tr>
<td>Travel Retail</td>
<td>74.0</td>
<td>65.0</td>
<td>+9.0</td>
<td>+13.8</td>
<td>44.5</td>
</tr>
<tr>
<td>Professional</td>
<td>21.0</td>
<td>48.0</td>
<td>-27.0</td>
<td>-56.2</td>
<td>48.0</td>
</tr>
<tr>
<td>Other</td>
<td>12.0</td>
<td>13.7</td>
<td>-1.7</td>
<td>-12.4</td>
<td>14.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,033.0</strong></td>
<td><strong>1,005.1</strong></td>
<td><strong>+27.9</strong></td>
<td><strong>+2.8</strong></td>
<td><strong>1,005.1</strong></td>
</tr>
</tbody>
</table>

*YoY change in local currency in real terms excluding special factors such as Zotos business transferred in 2017: +8%*
Supplemental Data 2: 2018 Sales Forecast

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic growth rate</td>
<td>+8%</td>
<td></td>
</tr>
<tr>
<td>Increase in sales</td>
<td>+74.9</td>
<td>1,033.0</td>
</tr>
<tr>
<td>Effect of foreign exchange</td>
<td>-5.5</td>
<td>958.1</td>
</tr>
<tr>
<td>Business transfer, etc.</td>
<td>-41.5</td>
<td></td>
</tr>
<tr>
<td>(Billion yen)</td>
<td>1,005.1</td>
<td>1,033.0</td>
</tr>
</tbody>
</table>

(Billion yen)
Supplemental Data 3: 2018 Operating Income Forecast

Increase of marginal profits with sales growth +27.0
Increase of Marketing investment -17.5
Increase of R&D investment and others -3.0
Reduction of personnel expenses/other expenses +3.1

(Billion yen)

2017: 80.4
2018: 90.0
Supplemental Data 4: Capital Expenditure Plan (2018–2020)
We aim to achieve total returns, comprising direct returns to shareholders through dividends and medium-to-long term share price gains. Based on this approach, our basic policy is to focus on making strategic investment for sustainable growth, thus aiming for maximization of corporate value. At the same time we will enhance capital efficiency exceeding capital costs, with a view to increasing dividends and our share price over the medium-to-long term.

Upon determining dividends, we will achieve long-term, stable and continuous enhancement of returns with emphasis given to consolidated business results and free cash flow, and set the minimum level of Dividend on Equity (DOE*) of 2.5%, which we see as an indicator that reflects our capital policy. We will also buy back shares flexibly taking the market environment into consideration.

In 2018 (the fiscal year ending December 31, 2018), in accordance with the above policy, we plan to pay an annual dividend of 30 yen (DOE 2.7%), comprising an interim dividend of 15 yen per share and a year-end dividend of 15 yen per share.

*DOE = Annual Cash Dividend/ Equity
Supplemental Data 6-1:
Main Constituents of Old and New Reportable Segments

Organizational Changes

2017 Segments

EMEA

Travel Retail Fragrance Business

Other

2e • NAVISION

2018 Segments

Asia Pacific Fragrance Business

Asia Pacific

Travel Retail

Japan
Supplemental Data 6-2:
Main Constituents of Old and New Reportable Segments

Change of product distribution channels

2017 Segments

Americas

Partial change of product distribution channels in each region for NARS, BE and LM

2018 Segments

Asia Pacific (NARS • BE • LM)

EMEA (LM only)

Travel Retail (LM only)
Supplemental Data 7: Breakdown of ROE

**ROE**

<table>
<thead>
<tr>
<th><strong>14%+</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>vs. cost of shareholders’ equity</td>
</tr>
<tr>
<td>5%</td>
</tr>
</tbody>
</table>

**ROS (Net Income)**

6–7%+

- OPM 10%+ for all regional headquarters
- Strengthening of prestige brands/skincare
- Cost structure reform (2018-2020)
- Improvement of productivity
- Effective use of hurdle rate

**Total Assets Turnover**

1.0–1.1

- Improvement of CCC
- Reduction of SKUs, consistent management of sales per SKU and clarification of withdrawal rules
- Disposal of idle assets and liquidation of strategic shareholdings

**Financial Leverage**

2.0–2.2 times

- KPI management based on interest-bearing debt to EBITDA ratio and debt-to-equity ratio
- Securing reasonable financial soundness and minimization of WACC
Supplemental Data 8: Abbreviations of our Brands and Businesses

### Brands

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Japanese</th>
<th>English</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPB</td>
<td>クレ・ド・ポー ボーテ</td>
<td>Clé de Peau Beauté</td>
</tr>
<tr>
<td>BE</td>
<td>ベアミネラル</td>
<td>bareMinerals</td>
</tr>
<tr>
<td>LM</td>
<td>Laura Mercier</td>
<td>Laura Mercier</td>
</tr>
<tr>
<td>D&amp;G</td>
<td>Dolce&amp;Gabbana</td>
<td>Dolce&amp;Gabbana</td>
</tr>
</tbody>
</table>

### Businesses

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Japanese</th>
<th>English</th>
</tr>
</thead>
<tbody>
<tr>
<td>TR</td>
<td>トラベルリテール</td>
<td>Travel Retail</td>
</tr>
<tr>
<td>EC</td>
<td>Eコマース</td>
<td>E-Commerce</td>
</tr>
<tr>
<td>GIC</td>
<td>グローバルイノベーションセンター</td>
<td>Global Innovation Center</td>
</tr>
</tbody>
</table>
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.