May 14, 2018

Shiseido Co., Ltd.

Q&A at the Conference Call for Analysts and Institutional Investors for the First Quarter of the Fiscal Year Ending December 31, 2018 (Summary)

Attending: Norio Tadakawa, Corporate Executive Officer, CFO

[Q1 Results]

Q) The ratio of marketing costs to net sales was low in the first quarter. What kind of ratio are you aiming for on a full-year basis?

A) We initially estimated a marketing cost ratio of around 25.5% on a full-year basis. However, given that sales are higher than planned, and marketing efficiency has improved due to the cumulative effect of continuous investment to date, there is also the possibility that the ratio will be slightly lower than 25.5% on a full-year basis. This does not mean, however, that a ratio in the 20-23% range, as seen in the first quarter (actual ratio in the first quarter: 20.6%), will be maintained, because seasonality also plays a part, with a tendency for high investment efficiency in the first and third quarters. Moving forward, we plan to reinforce investment in the brands that still have the most growth potential.

Q) Gross profit improved significantly. Is this level sustainable in the future?

A) We aim to reduce the COGs ratio to 21.5 - 22.0% by 2020. The COGs ratio looks set to continue falling in the future mainly due to improvement in the product mix associated with growth of Prestige brands. However, first-quarter gross profit was far higher than anticipated and we do not expect this level to be maintained on a full-year basis.

[Japan]

Q) Why did sales to Japanese consumers grow?

A) Sales to Japanese consumers grew in the 3 skin-related categories that have been the focus of our efforts to date, namely, skincare, base makeup and sun care. In particular, *ELIXIR* posted dramatic growth in the skincare category thanks to the wrinkle-reducing cream which contributed to the expansion of new consumers and led regular users to purchase lotions and emulsions, and the addition of the *REFLET* series, which is aimed at the younger generation of consumers and has expanded the age range of regular users of the brand. In base makeup, which has a high repeat rate, *MAQuillAGE* maintained top share of the market, and in sun care, *ANESSA*, with its reputation for high quality that sets it apart from the competition, also gained significant share.

Q) Explain the success of cross-border marketing.

A) Products claimed as items available only in Japan sell well to Chinese consumers. For example, inbound consumers came into store to buy *ANESSA* products available only in Japan, and due to aggressive cross-border marketing through SNS, the products were acknowledged for their high quality, resulting in a substantial sales growth for the brand.

[China]

Q) Why did the China business perform strongly?

A) Prestige brands maintained high growth of around +40%, cosmetics brands also posted growth of around +30%, driven by *ELIXIR* and *ANESSA*, and personal care brands showed high single-digit growth. *Za* showed improvement in profitability despite decreased store sales, reflecting progress of structural reforms. Operating profitability in the China business during the first quarter was fairly highly, partly due to seasonality and the postponement of recognition of certain expenses.

[Americas]

Q) How did *bareMinerals* perform?

A) E-commerce sales are growing, but sales at boutiques were down year on year due to the closure of unprofitable boutiques, sales at cosmetics specialty stores also declined amid fierce competition, and sales of the *bareMinerals* brand overall posted negative mid-single-digit growth. *bareMinerals* launched new products in March, and we plan to strengthen investment from the second quarter to bring about a sales recovery.

[EMEA]

Q) How did *Dolce&Gabbana* perform?

A) *Dolce&Gabbana* store sales grew at a pace approaching 20% in the Americas and were also strong in EMEA. The benefits of strengthening marketing investment began to become apparent from the fourth quarter of last year and, during the first quarter, growth momentum further increased in the Americas and EMEA businesses and was also strong in the Travel Retail business.

[Travel Retail]

Q) The operating profitability forecast for the current fiscal year is in the mid-teens. Do you intend to revise this in light of the strong first-quarter performance?

A) During the first quarter, operating profitability was high because sales grew more than anticipated but costs were as planned. However, seasonality plays a part in this, thus last year first-quarter profitability was high and then fell every quarter. This year, too, profitability is expected to fall in the same way and profitability on a full-year basis will not necessarily be as high as in the first quarter.

[Production and Supply Network]

Q) What exactly are you doing to strengthen the supply network?

A) Since last year, we have been stepping up collaborative efforts with our suppliers to maximize procurement of materials. Besides strengthening the human resources at our factories and their capability to execute production plans, we are also focusing on expanding outside contractors, reviewing the specifications of products with low productivity and reducing SKUs. We are currently minimizing the out-of-stock risk by increasing the production capacity of our three factories in Japan and linking management plans with supply and demand.

[Other]

Q) What risks do you envisage in the future?

A) We expect that growth momentum will be maintained because brand equity has increased through the cumulative effect of marketing investment. The question is whether the production and supply network can keep up with the sales growth. Since April, I (Tadakawa) have also taken charge of production and supply chain management and I am currently visiting factories and discussing production plans. We have accelerated measures to increase production capacity since March when we announced the three-year plan and we will continue to push ahead with initiatives.

Q) The growth axes of a global cosmetics company are generally believed to be Travel Retail, E-commerce and Specialty Stores. What is your strategy for Specialty Stores?

A) Cosmetics specialty stores are facing tough conditions in the Americas amid the shift to e-commerce but are showing growth in the EMEA market. Since conditions differ depending on the region, we will be strengthening our efforts with brands as the axes.