May 14, 2019

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, 2019 (Summary)

Attending: Michael Coombs, Corporate Officer, CFO
Harumoto Kitagawa, Vice President, Investor Relations Department

[Results and Forecast]

Q） Looking at the preliminary results for April, sell-in growth appears to have accelerated from first-quarter results in each region. Why is this?

A） In the Japan business, inbound sales grew. During April, growth in sales to tourists accelerated, and buyer sales have also recovered compared with the first quarter, though overall growth is negative. In China, growth momentum picked up even more, reflecting the effect of increased marketing investments in the first quarter. In Travel Retail in the first quarter, sell-out growth exceeded 20% but sell-in growth was 9% mainly due to inventory adjustments. April saw improvement in the balance between sell-out and sell-in, with sell-in growth exceeding 20%.

Q） Looking at the results for Japan and Travel Retail, there is a difference between sell-out and sell-in growth. What is the outlook from the second quarter?

A） In Japan, there is not such a big disparity, with sell-out growth of 2% and sell-in growth of 0.4%. In Travel Retail, sell-in growth was 9% compared to sell-out growth of over 20%, but this is mainly because we made inventory adjustments in the first quarter. Sell-in growth in Travel Retail in April was over 20%, which is closer to the sell-out growth momentum.

Q） The increase in costs is greater than the growth in sales. Will this situation continue in 2019 and will this expenditure contribute to profits from 2020?

A） During the first quarter, we have invested most of the gross profit we earned to maintain the current growth momentum. Around 80% of the increase in marketing investments is attributable to stronger investment in China and, in particular, we have strengthened investment in digital marketing, including e-commerce.

Q） Approximately how much did sales of *Clé de Peau Beauté* grow worldwide? To what extent will the growth rate improve from the second quarter?

A） During the first quarter, global sales grew 5%, mainly due to product shortages in Travel Retail. We plan to improve our shipments from the second half by continuing to deal with supply issues and prioritizing the production of key products.

Q） Expenses increased due to higher freight costs. Will this situation continue in the future? Will such expenses decrease once the new factory goes into operation?

A） Freight costs increased mainly due to the use of air transport to minimize opportunity loss. We expect this situation to continue for a while, but we are working to minimize the cost increase as much as possible. Once the new factory goes into operation, we will be able to produce and deliver products more efficiently, resulting in decreased freight cost, and we also expect this to have a positive impact on COGs.

[Japan]

Q） Was your sales plan for the Japan business in the first quarter low to begin with?

A） Given that the Japan business posted high growth in the first quarter of last year, largely due to the launch of new products, we had anticipated the growth to be lower than other quarters in this first quarter. The result was growth of 0.4%, which exceeded our expectations. We expect that growth in the second quarter will be higher than the first quarter.

Q） What impact do you expect China's new e-commerce law to have on business in the future?

A) Although the latest inbound sales for April show recovery, we are being slightly conservative in our estimate on a full-year basis. The impact of the new e-commerce law in reducing buyer sales was most apparent in January, and since then the impact has lessened.

[China]

Q） What is the breakdown of China business sell-out for mainland China and Hong Kong? Why is there a difference between sell-out growth and sell-in growth?

A） Prestige sell-out growth for Hong Kong was 7%, while prestige sell-out growth for mainland China and Hong Kong combined was over 30%. The reason for the divergence between sell-out growth and sell-in growth comes down to *AUPRES*. Sell-in growth of *AUPRES* was -23% due to inventory adjustments but sell-out growth was -4%.

Q） Is there an obvious impact on buyer sales decreasing in Hong Kong?

A） The impact is evident in Hong Kong when compared with other regions.

Q） I guess the China business is affected by seasonality as it generates a great deal of profit in the first and third quarters and generates little profit in the second and fourth quarters. This fiscal year you strengthened marketing investments from the first quarter.

What is the profit outlook from the second quarter?

A） We do not disclose a quarterly operating profit plan by region. We are currently focusing on strengthening investments to maintain growth momentum. Any profit we received from value added tax cuts will also be reinvested in China.

[Americas/EMEA]

Q） Has the impact of unprofitable boutiques regarding *bareMinerals* come to an end? Will they continue to have an impact from the second quarter?

A） We have been closing unprofitable boutiques since last year but structural reforms for *bareMinerals* are ongoing and there is still the possibility of further boutique closures in 2019.

Q） The losses are widening in both the Americas and EMEA. Looking ahead to 2020, is improvement in profitability possible?

A） In 2019, we expect profitability to improve significantly from the previous year in both the Americas and EMEA, if we exclude one-off costs and Center of Excellence costs. In the first quarter, progress was in line with the full-year plan.

[Supply structure]

Q） In which regions was the impact of supply shortages evident?

A） In the first quarter, mainly Japan and Travel Retail were affected by supply shortages. In Japan, the *Revital* brand went out of stock as a result of prioritized production of other products, but we have increased the production volume through product plan adjustments, and believe there will be fewer supply shortages in the future. In Travel Retail, supply shortages of key *Clé de Peau Beauté* products had a major impact. From now through the second half of the year, we will ease supply shortages by ensuring inventories, reducing SKUs and focusing on prestige brands in production plans.

Q） You said that you have made progress with reducing SKUs and improving production efficiency but is it not the case that the recent product shortages are more a problem of planning accuracy than production capacity?

A） We reduced the number of SKUs by 2,688 last year, and expect to reduce by another 1,000 SKUs in 2019. We are still in the stage of implementing initiatives, but we plan to improve production efficiency and minimize shortages through reduction of SKUs and prioritizing production of key products.

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