November 7, 2019

Shiseido Co., Ltd.

Q&A at the Conference Call for Analysts and Institutional Investors
for the Third Quarter of the Fiscal Year ending December 2019 (Summary)

Attending: Michael Coombs, Chief Financial Officer
Harumoto Kitagawa, Vice President, Investor Relations Department

[Results]

Q) What were the factors behind the 10% growth in sell-out in Japan for Q3, and was department stores sell-in growth in line with the industry average?

A) Of that 10% growth, around half was due to last-minute demand ahead of the consumption tax hike, around 40% was due to organic growth, and approximately 10% was inbound sales growth. At department stores, both *SHISEIDO* and *Clé de Peau Beauté* have gained share.

Q) How would you account for the divergence in the growth rates for sell-out and sell-in in China?

A) The disclosed sell-out figures are for prestige brands in mainland China, whereas sell-in represents sales in all categories across mainland China; therefore, the two are not suited to simple comparisons. While inventory levels were low for some prestige brand products, strong sell-in momentum has continued across all categories, and we are not concerned.

Q) What are the factors behind declining profits in China for Q3?

A) A sell-out drop of low teens in Hong Kong is one factor. For mainland China, we have continued to strengthen investments aimed at long-term growth, and we have maintained robust performance particularly for prestige brands and e-commerce. Although we will continue to bolster investments, we will also implement thorough cost control measures, and offset the negative impact in Hong Kong by shifting some of our Hong Kong investments to the mainland China.

Q) Is the competitive landscape in China intensifying? What is your stance on discount promotion?

A) The market is highly competitive, but we are not considering competition through discount promotion. We will boost our competitiveness by further raising the value of our products. We are monitoring the market conditions and responding in a timely manner.

Q) In real terms, sell-in in the Americas dropped 3% year-on-year; what about real operating profit?

A) Operating profit has improved considerably on a commercial basis. While overall market growth in the Americas has been stunted, our commitment is unchanged. Additionally, as some Q3 sell-in was shifted to Q2 due to the introduction of a new ERP system in the Americas, we see a drop in sales and operating profit merely in Q3, but this is offset in the nine-month year-to-date figures.

Q) How much global growth have you seen among prestige brands? Was there an impact on *Clé de Peau Beauté* in terms of supply?

A) In the first nine months of 2019, *SHISEIDO* was up 19%; *Clé de Peau Beauté,* up 12%; *IPSA,* up 13%; and *Dolce&Gabbana,* up 7%. These are contributing to global growth. The new skincare line for *Clé de Peau Beauté* was not impacted by supply shortage.

[Forecast]

Q) Why show the full-year forecast as a range? While net sales are forecast to decline by 25 to 30 billion yen, the fall in operating profit is less, at 0 to 7 billion yen. Why is this?

A) We quantified impacts due to declining sales in the Hong Kong and South Korea markets, unfavourable weather, a fall in inbound buyers and other factors, and displayed the full-year forecast as a range. This is because we have NOT given up on achieving our original target of 120 billion yen in operating profit. We will strengthen our long-term marketing investments, but at the same time we will coordinate with each region to improve cost efficiency in response to the business environment and strive to improve marketing ROI.

Q) Would it be fair to say that the impact of lower sales in the Hong Kong and South Korea markets is reflected in operating profit? Will cost reduction measures to achieve the full-year forecast be mainly implemented in Japan?

A) We have identified the factors behind declining sales. To offset the impact of losses in Hong Kong and South Korea, we aim to manage investments such as marketing promotions in each market and improve cost efficiency through various measures such as shifting to digital media investments. We will cover the fall in South Korea profits within the Asia Pacific region, and the fall in Hong Kong profits with mainland China, which continues to enjoy robust performance.

Q) How likely are you to achieve your goals for 2020? Are you considering any additional measures for potential risks?

A) Each of our regions are currently formulating business plans aimed at meeting our 2020 goals. We will continue to enhance the prestige and skincare categories in order to increase profitability. Additionally, with the Nasu Factory starting operation, we will be able to increase production in-house and thus improve COGs. We are also looking to further boost marketing ROI by shifting to digital-related investments. We also expect investments in technology and IT systems to lead to higher productivity in the long term.

Q) In the breakdown of the revised full-year forecast, when divided based on the timing of realization, what proportion of this has already taken place in Q3?

A) You can think of the revised sales figures as being evenly divided among Q3 and Q4, but the majority of recovery in operating profit will occur in Q4. We are going to keep pushing to the end, taking every possible measure in an effort to achieve our initial operating profit target of 120 billion yen for the period.

[Other]

Q) What is the progress on commercialization of Second Skin technology?

A) We are developing a new product category that comprehensively realizes the benefits of skincare, beauty healthcare and makeup. The product development is a joint effort of the Global Innovation Center in Japan and the Americas Innovation Center.