Shiseido Company, Limited

2023 First Half Results (January-June)

August 8, 2023

Event Summary

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[Participants]		
[Number of Speakers]	3	
	Kentaro Fujiwara	President and COO
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*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Hirofuji: Everybody, thank you very much for waiting. Thank you for attending the Q2 earnings call for the Shiseido of the fiscal year ending in December 2023.

Before we begin, we have a few precautions. We would like to inform you that the presentation may involve forward-looking statements based on our outlook. Please understand that these involve risks, uncertainties, and other factors that may cause the actual results to differ from these statements.

Now, I would like to introduce the presenters of today's session, President and COO, Kentaro Fujiwara and CFO, Takayuki Yokota. I will be the emcee of today's session from the IR division. My name is Hirofuji. A pleasure seeing all of you here.

Today, we will have the presentation from the CFO for the H1 results and from Mr. Fujiwara, the COO, about Japan's transformation, Leaping for a Brighter Future. Then we will open up for a Q&A session. We plan to finish today's session at 6:40 p.m. Today's session will be streamed live online. After we finish the session, we will be having the recording on the website.

Now I would like to have Mr. Yokota do the presentation.

Yokota: I would like to present the 2023 H1 results.

First, please refer to page three.

This shows the key headlines for H1 of 2023. This quarter marked good performance continued from the Q1. The like-for-like net sales, excluding the impact from FX and all business transfers, was an increase of

9% YoY. Japan steadily recovered in mid to high price range with strong new product launches capturing the market recovery. China grew both in online and offline channels, as well as Americas and EMEA remaining strong, driving the overall growth.

On the other hand, Travel Retail sales decreased due to retailers' inventory adjustments associated with market normalization of focusing the business model to travelers and also delay in recovery with Chinese travelers.

By brand, the global brands, Shiseido, Cle de Peau Beaute, NARS, and Drunk Elephant experienced outstanding performances contributing to the overall growth. The e-commerce sales ratio was 34%. The 618 promotion in China realized growth above the market in all platforms, contributing to the growth of global EC. Also, the great performance of Drunk Elephant with a high e-commerce ratio drove the growth.

Core operating profit was JPY28 billion, an increase of JPY10.5 billion or positive 60% YoY. Factors, such as the sales increase through enhanced investments to brands and innovation, cost management, and FX impact from yen depreciation contributed to the increase in profit.

For the H1 performance, both net sales and core operating profit exceeded the initial forecast. Also, the transfer of Kuki factory was completed on April 1.

2023 1H (January–June): Executive Summary

(Billion yen)	2022	% of Net Sales	2023	% of Net Sales	YoY Change	YoY Change %	YoY FX-Neutral %	YoY LfL*2 %
Net Sales	493.4	100%	494.2	100%	+0.8	+0.2%	−4.2%	+8.5%
Core Operating Profit	17.5	3.6%	28.0	5.7%	+10.5	+59.9%		
Non-recurrent items	−0.6	−0.1%	−14.4	−2.9%	−13.8	-		
Operating Profit	17.0	3.4%	13.6	2.8%	−3.3	−19.7%		
Profit Before Tax	25.6	5.2%	15.4	3.1%	−10.2	−39.9%		
Income Tax Expense	6.9	1.4%	3.0	0.6%	−4.0	−57.2%		
Profit Attributable to Owners of Parent	16.2	3.3%	11.8	2.4%	−4.5	−27.7%		
EBITDA*1	43.1	8.7%	53.2	10.8%	+10.2	+23.6%		

*1 Core Operating Profit+Depreciation and Amortization (excl. depreciation of right-of-use assets) *2 Excludes FX and business transfer impacts

Net Sales: ➢ Japan steadily recovered in mid-to-high price range, China's sales grew both online and offline, Americas and EMEA remained strong, driving overall sales growth

Core Operating Profit: ➢ Profit improved due to an increase in gross profit coming from higher sales

Non-recurrent items: ➢ Includes loss on transfer, impairment loss and structural reform costs, etc. associated with Kuki Factory transfer in 2023

Profit Before Tax: ➢ Finance income/costs: declined by ¥8.2 bn

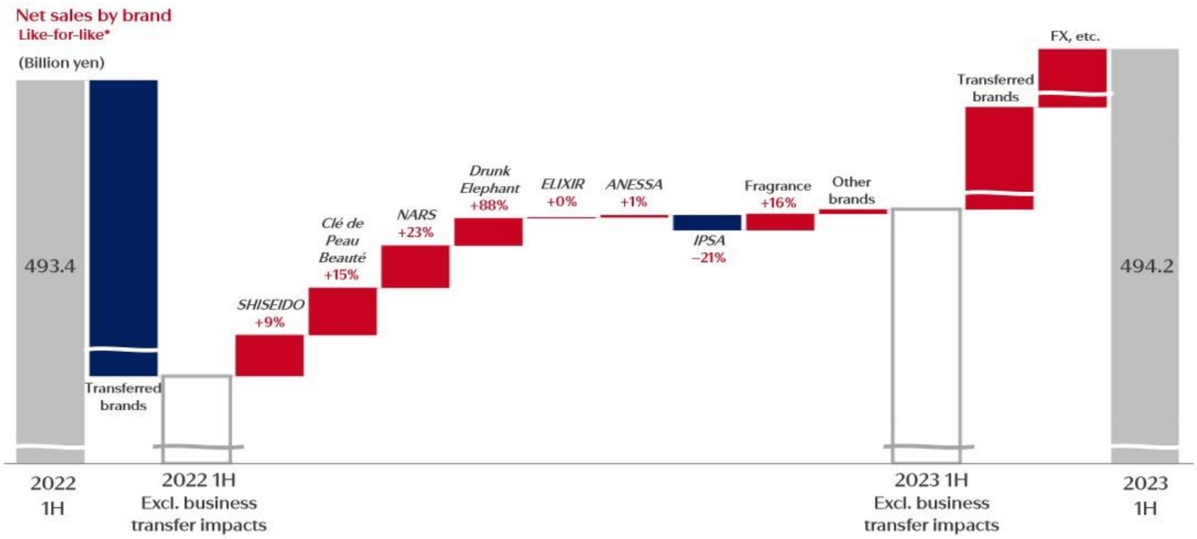
EBITDA: ➢ EBITDA margin 10.8%

4

Next is page four, the P&L summary.

Core operating profit was JPY28 billion, an increase of JPY10.5 billion YoY. Operating profit was JPY13.6 billion, a decrease of JPY3.3 billion. This was due to the loss associated with the Kuki factory transfer in non-recurring items. The profit attributable to owners of parent for the quarter was JPY11.8 billion, minus JPY4.5 billion versus last year. EBITDA was JPY53.2 billion, an increase of JPY10.2 billion. The EBITDA margin was 10.8%.

Global Brands *SHISEIDO, Clé de Peau Beauté, NARS* and *Drunk Elephant* Grew Strongly, Driving Overall Growth



* YoY change (%) for each brand is calculated based on foreign exchange rate assumptions as of Feb 2023 and excludes exchange rate differences, etc.

5

Next is page five, performance by brand.

Global brands Shiseido, Cle de Peau Beaute, NARS and Drunk Elephant contributed significantly to the overall growth. Shiseido and Cle de Peau Beaute grew in all regions, except for Travel Retail. The strong growth was driven by new innovative products and brand enhancement initiatives such as effects and efficacy appeal, capturing the strong performing trend of the prestige market.

NARS continued to grow its sales with the Light Reflecting Foundation, the global hit product launched last year, along with the new launches this year, capturing outstanding performance. Drunk Elephant is continuing its strong growth momentum as well.

On the other hand, the Asian brands, ELIXIR and ANESSA performed flat YoY. ELIXIR continues its double-digit growth in Japan but is a minus in China in Travel Retail. ANESSA grew in both Japan and China, however, was offset by the minus in Travel Retail. For ELIXIR, the renewed lotion and emulsion in Japan last September is planned to be launched in China in August too, aiming for recovery.

In terms of other brands, IPSA experienced negative growth, especially in China and Travel Retail. However, we are strengthening initiatives to create new hero products. The fragrance business continues to perform strong.

Net Sales YoY: Achieved Strong Double-digit Growth in Q2 Recovering Decline in Travel Retail

Like-for-like*	2022			2023					
	vs. 2021			vs. 2019			vs. 2022		
	1H	2H	FY	Q1	Q2	1H	Q1	Q2	1H
Japan	−2%	+3%	+0%	−32%	−29%	−31%	+8%	+9%	+9%
China	−14%	−6%	−10%	+10%	+43%	+27%	−3%	+20%	+10%
Asia Pacific	+9%	+16%	+13%	+1%	+5%	+3%	+16%	+12%	+14%
Americas	+11%	+7%	+9%	+67%	+46%	+56%	+30%	+18%	+23%
EMEA	+5%	+4%	+4%	+30%	+19%	+25%	+22%	+11%	+17%
Travel Retail	+18%	+10%	+14%	+30%	+2%	+14%	−4%	−4%	−4%
Total	−1%	+2%	+1%	+0%	+4%	+2%	+7%	+10%	+9%

* Excluding FX and business transfer impacts

6

Next is page six, the trend of net sales.

Q2 captured double-digit growth in net sales on a like-for-like basis with positive 10%. The negative in Travel Retail was offset by growth in all the other regions. The big change here is China turning to a high growth of 20% in Q2 from the minus it experienced in Q1.

Japan: Steady Recovery in Mid-to-High Price Range, Gained Market Share in Q2

- Q2 Market:
  - Local:
    - Low and high price ranges drove the market growth; middle price range stayed flat YoY
    - Growth centered on makeup and sun care categories
  - Inbound:
    - Growth recovered month by month as tourists increased
- Shiseido Consumer Purchases*1 :
  1H +high single digit% / Q2 +low teen%
  - Local: +mid single digit% / +high single digit%
    - *Clé de Peau Beauté* : +mid teen% / +mid teen%
      SHISEIDO : +low teen% / +low teen%
      Loyal users steadily increased
    - *ELIXIR* : +high single digit% / +low teen%
      Renewed products continued strong
    - EC : +low teen% / +mid teen%
  - Inbound: +high 20% / +over 30%

*1 Excluding business transfer impacts *2 Adjusted for the effects of consumption tax hike in 2019

7

Next is page seven, about the Japan business. First, the market situation is steadily improving.

In terms of the local market, the low and high price range drove the market growth, showing continued recovery with low single-digit growth. On the other hand, the mid-price range stayed flat YoY. When you compare the overall local market to 2019, it has continued double-digit decline since COVID-19, but the minus has shrunk to a single digit in Q2. Slowly, but surely, the market is steadily recovering.

The inbound market recovered further from Q1, realizing higher growth rates in Q2 month-to-month. To recover fully to the 2019 level will still take time, but we are observing the recovery in number of Chinese tourists to Japan each month.

In such an environment, the Japan business for Q2 steadily grew the number of loyal users, significantly expanding the share as a result of concentrating innovation and marketing investments to the focused categories of core brands in the mid to high price range.

The low-price range continues to lose share, but the significant market share expansion in our core competitive area, the mid to high price range, drove the growth in overall share. The consumer purchase for Q2 grew by a low teen percentage overall. The local was positive high single digit and inbound grew more than 30%.

For the local performance by brand, Cle de Peau Beaute was in the mid-teen percent, Shiseido in the low-teen percent, both continuing to grow far exceeding the market trend. Product enhancements through innovation and the timely launch of point makeup, capturing the recovering demands, contributed to the growth.

For ELIXIR, the brand renewed its brightening line this February, a continued renewal since last September. This quarter, the brand experienced a growth of low teen percentage, capturing strong growth with share expansion.

Furthermore, ANESSA captured the demands and opportunities to grow out more, accelerating its growth, even though the suncare market is experiencing a shift to a low-price range trend.

Also, in H1, many of the brand’s innovation was highly acknowledged by consumers and beauty journalists, receiving numerous beauty awards.

Next is page eight, the China business.

In terms of the China market, there was significant recovery as a rebound from the lockdown last year in offline channel. The e-commerce also experienced strong growth. The growth rate in last year's Double-11 and this year's International Women's Day was stagnating, but the 618 promotion accelerated its growth, which was over 20% in all core platforms.

Shiseido's consumer purchase also marked strong growth of low 20% in Q2. The offline channel captured a growth of high 20% for the quarter, driven by the enhanced storefront experience as part of the continued brand equity enhancement for growth.

In the e-commerce channel, we continued to avoid price-dependent promotions, yet were able to capture growth that outperformed the market and expanding share in all core platforms. By price range, the high price range, especially the high prestige, continues to perform strong in Q2. Cle de Peau Beaute grew over 40%, and Shiseido grew by high 20%.

There is no change in plan strategy for H2 of the year. We will enhance investments in the offline channel in line with the recovery of consumer traffic. Along with that, we will continue to suppress price-oriented promotions and execute appropriate resource allocation for sustainable and profitable growth.

Americas, EMEA, Asia Pacific Achieved Strong Growth Recovering Weak TR

Q2 Market

Americas

Continued strong

Growth and market share gains in all categories

- Shiseido External Sales[*1]: 1H +23% / 2Q +18%
  - *Drunk Elephant*: +over 2x / +over 60%
  - *NARS*: +high teen% / +low teen%
  - EC: +high teen% / +high teen%

EMEA

Continued strong

Growth and market share gains in all categories

- Shiseido External Sales[*1]: 1H +17% / 2Q +11%
  - ex-Russia: +24% / +18%
  - *SHISEIDO, NARS, Drunk Elephant*: continued strong
  - EC: +low 20% / +high teen%

Travel Retail

South Korea: weak due to delay in recovery of tourist traffic, Hainan Island: stricter regulations

South Korea and Hainan Island weak

- Shiseido Consumer Purchases[*1]:
  Global: 1H +low single digit% / 2Q +low single digit%
  Asia: flat / −low single digit%
  - EC (Asia): +high single digit% / −high single digit%

Asia Pacific

Taiwan turned to growth in Q2

Taiwan turned to growth and the region as a whole grew

- Shiseido External Sales[*1]: 1H +14% / Q2 +12%
  - *NARS, Drunk Elephant*: powerful growth
  - EC[*2]: +low teen% / +high teen%

*1 Excluding FX and business transfer impacts *2 Prestige brands only

9

Next is page 9.

Travel Retail was weak, but strong growth continued in Europe, the Americas and Asia. In both Europe and the Americas, market growth in all categories continued, and we did well. Drunk Elephant, NARS and Shiseido led overall growth.

The Travel Retail business remained sluggish due to the continued adjustment to distribution inventories in response to the return to a traveler-centric business model and the slow recovery of Chinese tourists in South Korea as well as tightening regulations in Hainan Island. We were also affected by these factors, resulting in negative growth for the Company as a whole.

We also saw a recovery in Taiwan and Asia Pacific, which are negative growth in Q1 and a shipment basis and maintained double-digit growth overall due to strong growth in NARS and Drunk Elephant, by brand.

COGS Ratio : Reduced Significantly from Termination of MSA[*1,2] after Kuki Factory Transfer
COGS LfL[*3] Ratio: Improved ca. 2pts YoY, due to Productivity Improvement, etc.

	2022 1H	2022 Full Year	2023 1H
COGS	29.7%	30.3%	27.2%
COGS LfL[*2]	24.8%	23.6%	22.5%

1H YoY COGS analysis

(+) Favorable product mix

(+) Higher productivity

(+) Alleviation of logistics costs increase

(+) Decline of negative impact from MSA[*1] for business transfers (2022 4.9pts -> 2023 3.7pts)

(–) Higher allowance for excess inventory write-offs

(–) Change in sample cost accounting method

(–) Impairment losses and structural reform expenses on transfer of Kuki Factory (0.9pts)

*1 Manufacturing Service Agreement *2 Personal Care products supply at Vietnam Factory and makeup products supply at America Factory will continue
*3 Excludes business transfer impacts and impairment loss, etc.

Next, page 10, is the cost-to-sales ratio.

The cost-to-sales ratio for Q2 was 25.2%. This was an improvement of about 4 percentage points from 29.4% in Q1. This is mainly due to the impairment loss and the transfer of the Kuki plant in Q1 and the fact that the Kuki plant will no longer be supplying personal care products in Q2.

In addition, the YoY growth in the first half was steady, up about 2 points, due to a favorable turnaround in the product mix following the business transfer, improved productivity resulting from the shift to in-house production, and the easing of soaring distribution costs.

2023 1H Core Operating Profit by Reportable Segment

Japan : Improved thanks to higher gross profit coming from sales growth
China : Improved thanks to higher gross profit coming from sales growth, turned profitable
Asia Pacific : Declined due to enhanced marketing investment etc., despite higher gross profit coming from sales growth
Americas: Increased thanks to higher gross profit coming from sales growth, etc.
EMEA: Declined affected by business transfer impacts etc., despite higher gross profit coming from sales growth
Travel Retail: Declined due to lower gross profit coming from decline in sales, etc.
Other/ Adjustments: Increased in total thanks to reduction in elimination of unrealized profit associated with lower inventory, which outweighed lower gross profit from decline in intersegment sales

(Billion yen)

Core Operating Profit (Core OPM)	2022		2023		YoY
Japan	−7.4	(−6.2%)	−3.4	(−2.7%)	+4.0
China	−2.0	(−1.7%)	5.5	(4.2%)	+7.5
Asia Pacific	2.4	(7.3%)	0.2	(0.7%)	−2.2
Americas	3.7	(6.1%)	4.1	(7.3%)	+0.4
EMEA	2.6	(4.2%)	1.3	(2.2%)	−1.3
Travel Retail	17.0	(21.8%)	15.4	(19.9%)	−1.5
Other	0.4	(0.3%)	−3.7	(−2.7%)	−4.1
Adjustments	0.8	-	8.6	-	+7.8
Total	17.5	(3.6%)	28.0	(5.7%)	+10.5

11

Next, page 11 is the core operating income by segment.

Japan improved due to an increase in a marginal gain on higher sales.

China also improved significantly due to a marginal gain and on higher sales, a return to profitability.

Americas improved due to an increase in marginal gain on higher sales.

Europe reported a decrease in profit mainly due to the impact on brand transfer despite the marginal gain due to higher sales.

Travel Retail reported a decrease in income due to a marginal gain from lower sales.

Other adjustments, the marginal gain decrease due to lower internal sales was offset by a decrease in elimination of unrealized income due to inventory reductions, net income increase.

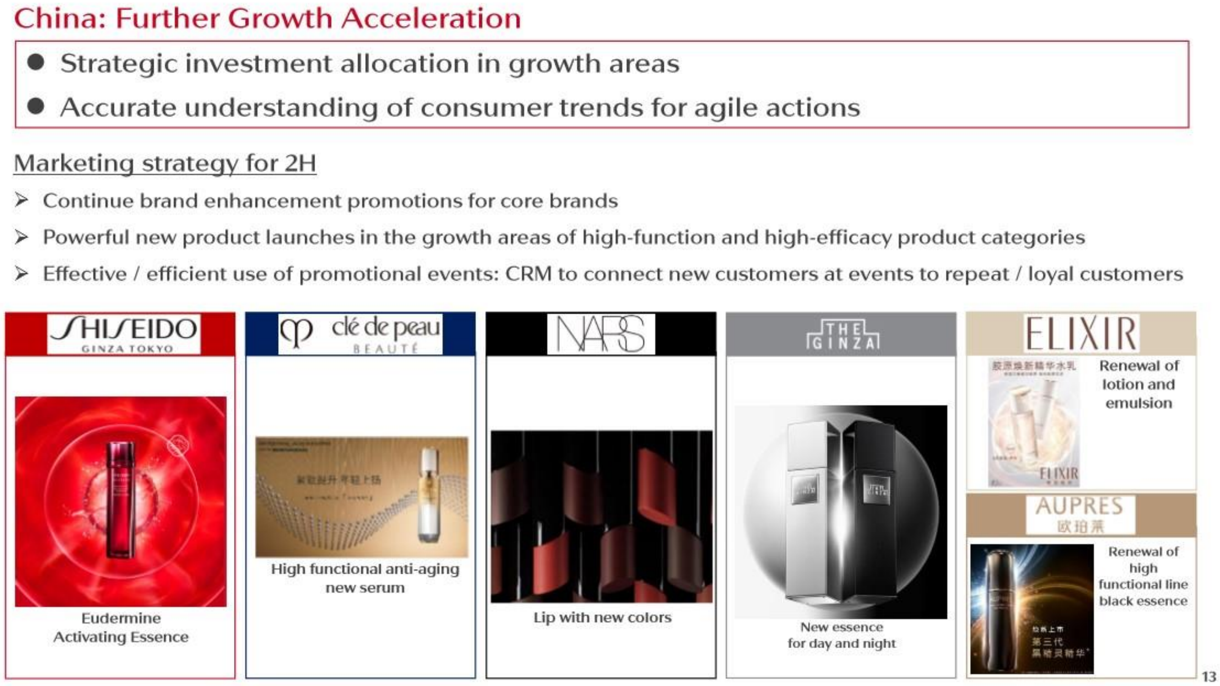
Next, page 12, we will discuss our initiatives to further accelerate growth in H2 of the year in the Japan business.

We expect the market will recover steadily in H2 of this year and all of our strong mainstay brands in the mid- and high-end price range, and we will aggressively strengthen products and marketing through innovation in all of our mainstay brands.

In particular, when we focus on the Cle de Peau Beaute, Shiseido and ELIXIR, which performed well in H1 of the fiscal year, we will continue to strengthen their product lineups, including the launch of new products that you have already seen.

In particular, with ELIXIR, finally, we are able to get on the growth trajectory. In September, we will launch a wrinkle cream, which was the overwhelming number one share of the market. And in fall, we will launch our new product, and we will have a limited addition to commemorate the 40th anniversary.

We expect that selection and concentration of brands and product lines will improve profitability and that all of our innovative products in H2 of the year will be in the high price range.



Next, page 13, I will explain our initiatives in China in H2 of this year.

Global trends in Chinese consumption, particularly in China and Travel Retail, are changing dynamically, and it is of utmost importance to respond with a sense of speed. In the prestige market in China, we are working to accelerate growth and expand our presence in the Chinese market.

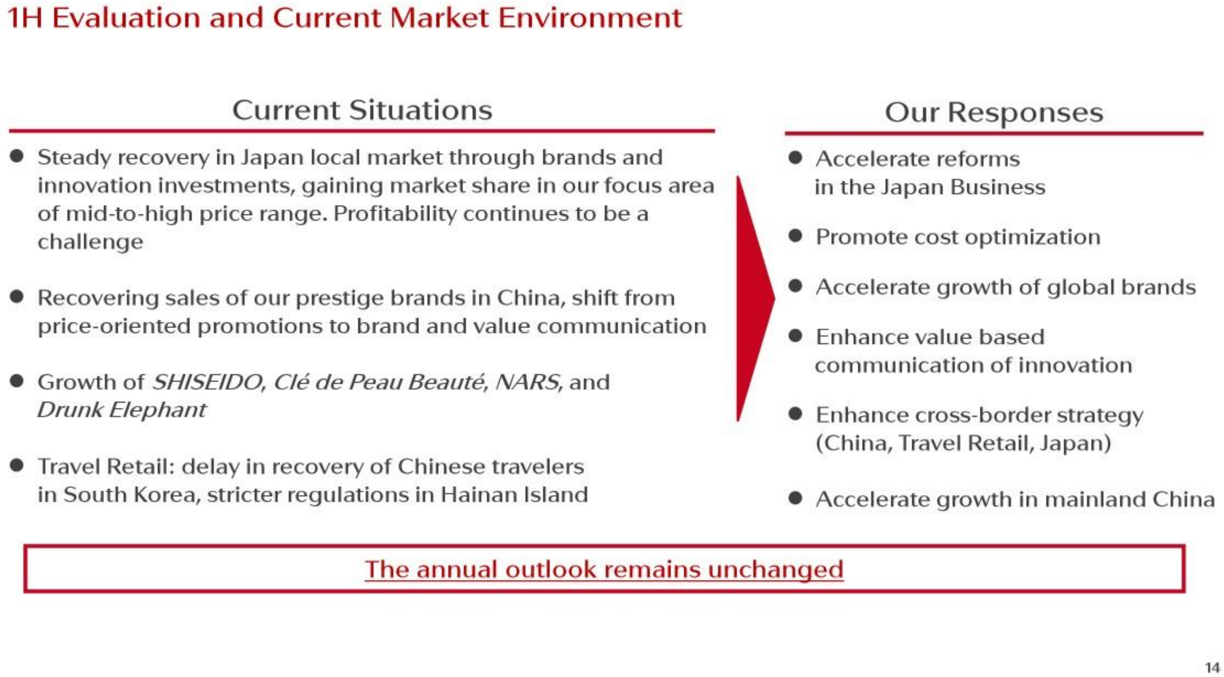
We lost market share in Q1 but made a significant turnaround in Q2 and succeeded in increasing our market share in the H1 of the year as a whole. The key is the success of strategic investment allocation with an eye on growth areas and accurate understanding of consumer trends and agility.

In the market, the strength of high prestige and efficiency functional products continues to be strong. In H2 of this year, we will continue to win in this growth area and aim to expand our market share through communication and pushes our strengths of advanced technology.

From the perspective of marketing ROI, efficient and effective use of promotional events is also a key point. While our policy of moving away from excessive discounting remains unchanged, we recognize that 618 and the Double-11 are shopping festivals that customers look forward to.

We will continue to strengthen our CRM, which has already yielded positive results by effectively utilizing events to efficiently acquire new customers and then following up with the personalized communication to encourage repeat purchases and establish customers as loyal shoppers.

In H2 of the fiscal year, we will continue marketing to high-performance, high-effectiveness categories and mainstay brands, as shown in this slide, and we will also strengthen marketing activities in the premium skin care brands ELIXIR and Aupres to return growth.



I will end my presentation on page 14 with the evaluation of H1 of the year and the current market environment.

In H1, we achieved solid local growth in Japan through brand investment, innovation and gained market share in the mid- to high-end price range, which is our focus area. In China, brands have been strong, and we increased the market share while promoting investments in brand and value communication from price-oriented promotions.

As for the global brands, Shiseido, Cle de Peau Beaute, NARS and Drunk Elephant achieved high growth rates. As a result, both sales and core operating income exceeded initial expectations in H1 of the year but the recovery of Chinese travelers in the retail business in Korea in H2 of the year was not as strong as initially expected. So, we are leaving the full year forecast unchanged in view of downside risks in H2, such as the delayed recovery in Chinese tourists in Korea.

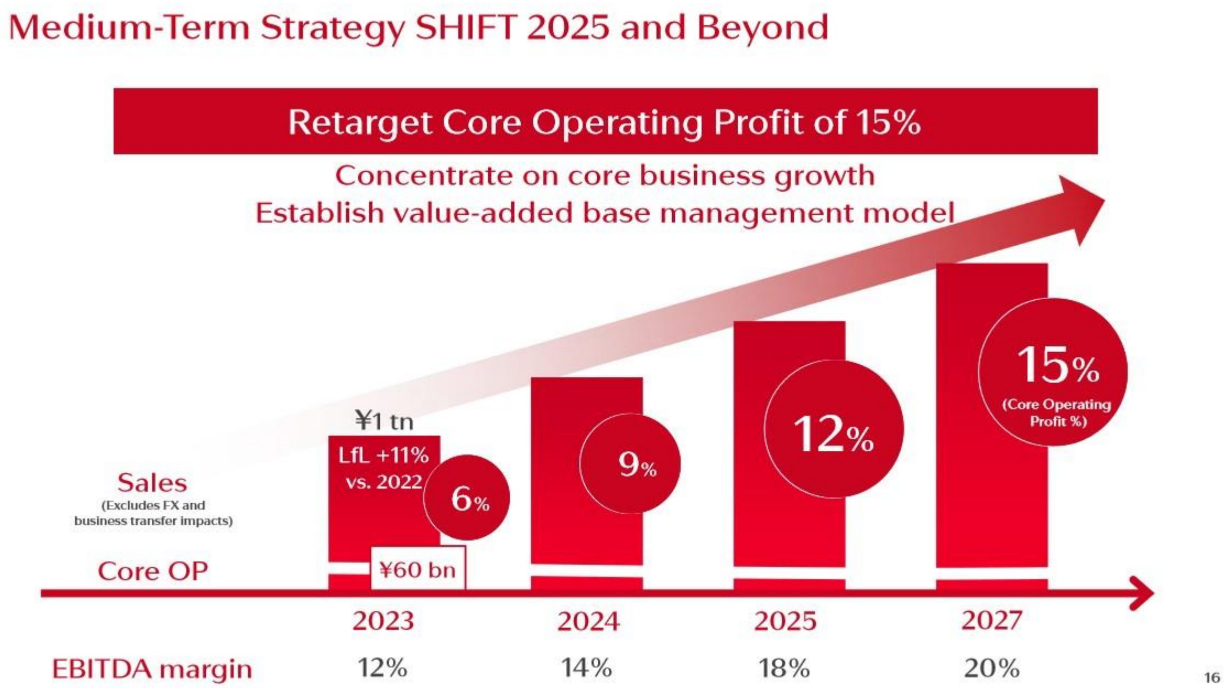
Also, for the Chinese consumers as a whole, we will further strengthen our cross-border strategy, which we have been implementing to date to offset the downside risk in Travel Retail by accelerating growth in China.

This is all for me. Thank you.

Hirofuji: Now we will have Mr. Fujiwara, the President and CEO, to present to you Japan's Transformation Leaping for a Brighter Future.

Mr. Fujiwara, please?

Fujiwara: As Mr. Yokota has just explained, H1 has shown good performance. Yet the current market situation continues to show uncertainties.



Therefore, in order to increase our certainty to achieve the Medium-Term Strategy that was announced in February with a target of 12% in 2025 and 15% in 2027, we must further accelerate the speed of strategy and reform execution.

In order to achieve the Medium-Term Strategy, we have proposed these strategies. For the China business, as Mr. Yokota has explained, it is important to respond with agility to a quickly changing market and take bold measures to take appropriate action in order to maximize the Chinese consumers' consumption globally.

On the other hand, the biggest key to reform is to rebuild our earnings base by bringing back growth in Japan. Today, I would like to share with you my determination for the Japan business reform.

After I had taken the role as COO, I spent six months in learning and deepening my understanding about the Japan business. Through multiple sessions internally and with business partners, I deepened my understanding of the business structure, looked into the challenges and issues myself, and held further individual sessions for better understanding. This process was very important to understand the core issues and to understand what is really effective, and what, in fact, are the truly necessary actions.

Based on this, the prerequisite to keep in mind is that Japan is not a growing market. Therefore, we need to grow by taking share from other players in the market. In order to do so, we need an organizational structure where we can be agile to react quickly to further meet the needs of consumers and with more sensitivity to consumer behaviors.

The COVID-19 pandemic impact was, in fact, a good turning point. We did not have inbound sales experiencing negative growth, exposing that we cannot raise profit with our existing business model. As I visited the branch offices, it was great to be able to confirm that we have many employees that have a sense of urgency in the current situation, have expectations for reform and a passion for growth.

However, the organization in Japan is seeking to respond to the market change whilst continuing to carry on the legacy from the past. Therefore, there is not enough prioritization of strategies, slow in response speed, and complex countermeasures. I believe that the Japan business model must start from the needs of the changing market and purchase behaviors of the consumers. In order to do so, Japan needs to redesign the business model, break away from the existing business practices and internal rules to implement fundamental business model changes.

Addressing the P&L Issues - Facing the Hard Reality

- Channel and consumer touch point diversification
- Excessive number of brands to meet diversifying needs, lack of per brand scale
- Increased digital and data management costs and lack of scale in E-commerce
- Complexity in organization matching diverse channels and brands
  - Inefficient personnel allocation and duplication of functions with the HQ

Inefficiencies and heavy fixed costs

Facing the hard reality, we need to address issues and capture the opportunities to transform for the future leap forward

19

The P&L issues must be addressed as well. As a result of adapting to new market changes such as digital while keeping the existing ways and rules, the number of brands, increasing digital cost and complex operation structure to operate the diverse channels and brands have created inefficiencies and heavy fixed costs. We must face the reality and capture the opportunities to execute the transformation for the future leap forward.

My Commitment

“Self-innovation for Future Growth”
～Challenge the status quo～

To lead the transformation myself

Shiseido Japan Co., Ltd.
Kentaro Fujiwara to become Representative Director, Chairman
Effective September 1, 2023

20

The theme of this reform is self-innovation.

Looking back at the Shiseido history, the Company has developed through innovation through self-questioning and self-denial. As the market is recovering from the COVID pandemic, we must create an organization that can win while strengthening the brands with the consumer and market perspective.

I believe that the self-innovation is what creates lasting growth and development. If we do not change now, the existence of the Japan business is at risk. That is how strong my sense of urgency is to the current situation. Therefore, I, the Global President and COO, will be the Representative Director and Chairman of Shiseido Japan effective September 1, 2023. I will lead the transformation myself. I have decided that I have to do this and should do this based on the level of reform needed, the size of challenges, and the necessity of speed.

Mr. Tadakawa will continue as President and CEO of Japan, and we will work together as a team. We will continue the fundamental improvement in profit structure with these three pillars of reform in order to achieve the 2025 core operating profit target of JPY50 billion.

Business Structure Transformation for Profitable Growth

- **Consumer-centric business model**
  - Prestige: improve profitability by enhancing brand value and premiumization
    - Brand investments, strong innovation and expansion of customer base
    - Strategic price increases and reflecting the added value
  - Premium: enhance self-selection purchases and in-store marketing capabilities, pursuing efficiency
    - Data-driven business model leveraging consumer purchasing behavior understanding
  - Unlock E-commerce (D2C) business opportunity: maximize profitability and growth potential
    - E-commerce sales ratio: Low teen% in 2022 to targeting 30% in 2025
  - Modification of the historical "system cosmetics" business model based upon consultation
- **Sales organization reform**
  - Shift from a channel-based model to an area-based model
  - Strategic resource allocation in line with consumer purchasing behaviors
- **Retailer strategic alliance: becoming partners to maximize value**

22

Now I would like to explain about the details. First of all, we will transform the business model to a consumer-centric business model. We will review the consumer purchase behavior and resource allocation to convert the business model to a profitable business model. We would like to further strengthen the business model by elevating the brand value and improving profitability.

While proceeding with efficiencies through digital, we will secure enough necessary investments for the brands for sustainable growth and to expand the consumer base by stronger, new products. Also, by maximizing brand value and product innovation, we will transfer the high added value to the pricing. This will be the strategy for the Prestige business.

As for the premium business, we will be focusing on strengthening self-selection purchases. We will do further analysis of consumer purchase behavior to design the consumer decision journey from meeting to purchase with a consistent and strong communication. Through that, we will create an efficient data-driven business model. Shiseido has the rich consumer data and digital capability that can appropriately leverage the information, which should allow us to propose value.

As for e-commerce, it is a very highly profitable business with high growth opportunity. So, we would like to actively invest in e-commerce to grow the EC sales ratio to about the 30% level.

Also, we want to organize the channel to area perspective.

Moreover, the structure that has continued for 100 years, the historical system cosmetics business model, needs to evolve to match the modern business. To provide product and purchase experience that matches the modern consumers, we need to evolve this historical system cosmetics business model to maximize the value to consumers and our business partners.

For the sales organization, we will shift from a channel-based model to an area-based model. in each of the areas, people react differently, and people travel differently. So, in the conventional ways of the channel perspective, the allocation investment is difficult, or we can lose business opportunities. And so, if we can reallocate resource and also delegate some of the decision-making to the areas, we can do a better and more fit and appropriate resource allocation to each of the areas. And even more than what we have been doing, we would like to proactively work hand-in-hand with the retailers with strategic partnerships. In order for the retailers and the manufacturers to have a strong partnership, we want to leverage the value creation as partners for new opportunity creation.

In the Japanese market, there are more brands and SKUs than other regions. However, looking at the rate of return by brand, there are some brands that contribute to earnings with little or no investment. Therefore, it is not a simple matter of reducing the number of brands to improve profitability. We should clarify the mission of each brand and make investments more clearly and shift its marketing activities from a one-brand-fits-all approach to a more focused approach to improve investment efficiency.

The mission of the Global / Asian Brand Group is to lead medium to long-term growth through brand-based activities created on SHISEIDO, Clé de Peau Beauté, ELIXIR and ANESSA to ensure stable growth and profitability of the business. Through brand value-enhancing investments, product innovations and in-store brand experiences, the Group will enhance functionality and emotional value of its brands to achieve growth that exceeds the market. Global brands account for more than 40% of sales in Japan, but the Company aims to raise this to the 70% level over the medium to long term, driving improved profitability through a better mix.

Now, focused product on strategy for local brands in Japan, we'll focus on product strategy for local brands and product-based operations quickly to grab market needs and achieve growth. Focusing on the operation for hero products will improve investment efficiency and profitability and improve the SKUs in numbers. We will reduce the number of SKUs.

Fixed Costs Reduction - BOLD & SIMPLE Transformation

- **Review other SG&A expenses**
  - Logistics costs: reduce promotional material logistics costs
  - Outsourcing expenses: reduce and bring IT system / data analyses in-house
  - Lease expenses: office reorganization and review direct managed store profitability
- **Streamline back-office functions**
  - Pursue cost synergies with the HQ
- **Maximize value of point-of-sales employees**
  - Maximize consultation time - review headcount allocation
  - Shifting from in-house exclusive product sales staffs to fee-based service providers
    Providing fee-based services and consultation for business partners, addressing social labor shortage issues, etc.
- **Improve labor productivity**
  - Re-skilling
  - Existing special early retirement system

24

The shift to profitable growth described so far will lead to a reduction in fixed costs. By clarifying the brand mission, changing the growth model to a consumer-driven business model and allocating investments from an area perspective, the Company will shift to a simpler operation in which each action will be a bold operation. As a result, efficiency will increase, and fixed costs can be rationalized.

Specifically, logistics costs are reduced through reduction of returned goods and efficient delivery of promotional materials. Data-related expenses will also be consolidated to reduce outsourcing costs. In addition, while the number of sales offices has already been reduced by half, the Company will consider reorganizing other offices and reviewing directly managed stores.

In addition, the back-office structure that supports operations will be streamlined and cost synergies will be pursued for operations that overlap with headquarters to compensate for the headcount that will naturally decrease.

As for over-the-counter human resources, the Company will continue to pursue the traditional approach of hiring beauty consultant personnel and maximize the amount of time spent in contact with customers by shifting from the conventional system of waiting for customers at the storefront to serving them.

In addition, our company will maximize the time with the customers to attain the growth in a sustainable manner. We will also consider building the global human resources development. Also, we would like to aim to maximize the productivity of the both back-office and in-store human resources. By providing opportunities for reskilling, we will also make effective use of the early retirement system to encourage employees to build carriers that are not limited to Shiseido.

In order to lead these reforms, it is essential to reform the organizational climate within the Company. Organizations that have had difficulty achieving growth due to the slow recovery of COVID have been hesitant to change and are now ready to take on new challenges. We will eliminate all the taboos that remain in the Company and create a corporate culture that encourages employees to take on challenges for the future, a culture in which self-innovation, self-improvement, and the corporate culture in which employees can take further challenges.

We would like to shift to a risk-informed and innovation-driven organization. As necessary, we think that simplified discussion within the Company and also the speedy decisions would be necessary. And we would like the next-generation leader to lead the way of the reform.

We would like to be actionable or closer to the market at making it simple to come to a decision.

We would like to start the new organizational system next year.

Strengthening the Executive Team for Reform

- **Japan Business (Shiseido Japan Co., Ltd.)**
  - As of September 1, 2023
    Kentaro Fujiwara to become Representative Director, Chairman
- **Global (Shiseido Company, Limited)**
  - As of September 1, 2023
    Yoshiaki Okabe to become Executive Vice President,
    Chief Marketing & Innovation Officer
    - Allows for a speedy, consumer-centric product development, strengthening brand and innovation communication
  - Chief People Officer – to be announced soon

By myself working as the Chairman of Shiseido Japan, the Global Chief Innovation Officer, Mr. Okabe, who is the top of the R&D areas, will be the Global Chief Marketing Officer. Also, he will also be the Senior Vice President. The aim is to have the sense of speed to be closer to the consumers in terms of the product development, and brands, and R&D. Mr. Okabe be supporting being part of the Japan marketing strategy and Japan marketing team. With Mr. Okabe, we'll together drive the reform in Japan.

In order to steadily pursue these changes, including reform, we have now selected the Chief People Officer, which will be announced later.

By strengthening the headquarter structure, by 2025, we will complete the reform in Japan so that we will establish the steady and stable earnings power with the core business profit level of JPY50 billion. We will build a positive cycle for Shiseido Group to keep taking on new challenges. And we will make sure we will go there, get there.

This reform for the Japan business is my own idea. So, I, myself, will act upon it, and I have a strong determination to complete it. These ideas for reform have made a suggestion and work with CEO Mr. Uotani and our Board of Directors, who share the sense of urgency.

We are sharing it with the full understanding.

Question & Answer

Hirofuji [M]: Now we'd like to take questions. Please mention your name and association. We will take the second round of questions. Please ask one question at a time. And also, on the live stream, please use the Q&A button to input your questions and the Master of Ceremony will be read out your questions. We would like to prioritize on the questions from the floor. Now, please raise your hand when you have questions.

Kuwahara [Q]: From JPMorgan, my name is Kuwahara. Thank you for your explanation. In terms of the performance and the new strategy, the cascade of the new strategy, if I could ask further details of the strategy. So H1 core OP exceeded expectation, but to what level and what region? Especially Japan, did Japan exceeds expectation for core OP? But even with that, Q2 still has a loss. So, for the full year, I think you were looking at 16% for the full-year growth rate.

So, from that, it looks like you're still behind. And if that is the case, then in the current situation, even if you can't achieve the 16%, is it possible to resolve the negative in Japan or the shortage in Japan? And the fixed-cost reduction, is that going to happen in this fiscal year as well? So, these are some of the specifics that I would like to confirm with you today. Thank you.

Yokota [A]: First of all, for the Japan business, H1, the local sales had exceeded our expectation. Inbound was slightly behind, so that is where we are right now. But in May and June, we're starting to see an increase. As for June versus last year, the target is 70% versus last year. But at June level, we're kind of exceeding that pace. So, if we continue at this pace, we can probably catch up for the full year is what we are thinking at the moment.

So, for the profit, yes, we are exceeding the expectation. So overall-looking, Japan included, the local sales, which we are focusing on, so the local sales and profit, it is still negative, but it is exceeding the plan as we speak now.

In H2, we are planning to accelerate the growth, and that's local and inbound. If we can achieve what we assume to happen in H2, we should be able to eliminate the deficit.

Kuwahara [Q]: Thank you very much. In H1, about how much are you exceeding the forecast? You can be specific about Japan or overall.

Yokota [A]: About profit in H1, Japan was about JPY1.5 billion exceeded the expectation.

Kuwahara [Q]: What about the overall?

Yokota [A]: For the overall company, it's about JPY10 billion, exceeding what we had expected. And the big contributor to that is China.

Kuwahara [Q]: Thank you. So, then the fixed-cost reduction, that's not something that will happen in this year. It will be for the next fiscal year. Is that correct?

Yokota [A]: Even in H1, within the Japan business, we do have a savings impact of about JPY2.5 billion. That's with the inventory reduction and making the logistics more efficient and the headcount reduction by natural reduction. And that is giving us about JPY2.5 billion in sales. So if you look at the increase in the profit, to the growth of the top line, the marginal profit. I think the bottom line, we're able to reduce the costs.

Kuwahara [Q]: Sorry, one last thing. If that is the case, then H2 will be about the same level or will accelerate and will accelerate further in the next fiscal year? What I mean is the fixed-cost reduction in Japan.

Yokota [A]: Yes, just as Fujiwara-san has mentioned, we are doing the fundamental review of these fixed costs. So, the impact from this fundamental review of fixed cost is not yet included so much in 2023 is what we expect. When we'll actually see the fruit of this fixed-cost reduction is 2024 to 2025.

Fujiwara [A]: The Japan business had a negative performance last year. We've had many structural reforms, cost reductions, and that's something that's continued. And we're still seeing the impact from that, which we have been working on continuously. But as I have been looking for, as I said, I did my research in the six months, there are areas that need to be accelerated in speed, and that is why I made this presentation today.

As for that, I think we'll see more of the impact or effect of that from 2024. We are planning to do further big reforms, too. So, the full impact of that will probably be to achieve the JPY50 billion in 2025. So that's kind of what we're aiming at in terms of the timing.

Kuwahara [M]: Okay. Thank you.

Hirofuji [M]: Now, moving on to the next question.

Sato [Q]: Thank you very much. Sato from Mitsubishi UFJ Morgan Stanley Securities firm. A simple question. The full-year revenue plan in Japan is 16% and the Travel Retail original forecast. And in comparison to plan, have you not changed from the full-year forecast?

Also, the FX assumption is very different now. I think it's supportive towards the higher profitability. So how much of the FX is being factored in for the forecast for the full year? And does it affect change to your assumption for the full year since the beginning?

Yokota [A]: Overall, our target is the full-year growth target of 11% to JPY60 billion. We haven't changed that target. However, there is a downside risk for the travel segment. In H1, the Travel Retail was minus 4%, Q1 minus 4%, Q2 minus 4%. And so, our original assumption was flat. Therefore, the majority of this comes from the delay in recovery of Chinese travelers to South Korea than expected.

Also, since June, there's the stronger restriction in Hainan Island sell-out, which was doing well so far, was decelerated, a loss of speed. Therefore, downside risks will still remain in regard to these areas.

In any case, our first aim was the 20% growth in the Travel Retail. The numbers for the Travel Retail have now become really tough. Now, what's offsetting that is the good business in the EMEA region, namely the Americas and Europe. The downside risk in Travel Rerail basically is offset by the Mainland China consumption because we had good sales in 618 as well, which should make up for the losses. Also, in Japan, we should be able to attain the targeted 16%. For the locals, we should be able to exceed our initial target.

Also, there's an inbound consumption in Japan as well, which is doing better. And so, we see that more and more Chinese tourists are coming back to Japan in June and July. And so, we said that, for the full year, the inbound will recover by 70%. At this pace, I'm sure we can achieve this target and original assumption.

Now, for the FX, H1, a JPY3.5 billion positive impact was made against last year. Against the budget was flat. FX was JPY130 to USD1 for the budget, and for January to June, JPY134 to USD1.

Sato [Q]: So, there was hardly any FX impact?

Yokota [A]: In consideration of the unrealized, the result, yes, there was not so much impact.

Sato [M]: Thank you very much. That's clear.

Hirofuji [M]: Next question, please.

Miyasako [Q]: From Jefferies, my name is Miyasako. So, in Q2, China grew. But what initiative, what really drove that, do you think? And how do you see the market right now? And how should we look at next year. So I think the profitability was quite good, much better than what was planned. So this profitability, would it continue? How do you see this?

Fujiwara [A]: In Q2, we had the lockdown last year. So yes, I mean, on a YoY basis, it will look very high. But yes, it went much higher than what was expected.

One thing is, in the brick-and-mortar, the physical stores, exceeded expectations in good performance. We did have the 618 big promotion but, before that, we did the marketing activities, the brand equity investments and things that we had planned even before the 618 promotion.

As a result of that, one thing to say is the brick-and-mortar, the physical stores, performed well in especially the higher priced range, the premium price range, Cle de Peau Beaute, Brand Shiseido's Future solution, has captured great performance. So those were the areas where the strategy and the actual performance align with each other.

Another point to mention, for the 618 promotion, we were trying to suppress the size of the promotion, not making it too big. But as a result, in result, the 618 promotion was very good.

What we do need to be careful of is the consumer traffic tends to go to the top KOL. And that's something that we can't really do anything about.

On the other hand, when there's a big promotion, there are consumers that are waiting for these top KOLs. So what we are trying to do, the consumers that we acquire, how do we link it to the next behavior, next purchase through CRM, which will maximize our investments, too? For H2 of the year, we want to continue to evolve the activities and initiatives that we have been running.

Miyasako [Q]: The sustainability of your profitability, how do you see that?

Yokota [A]: We have a target of improving by 5 points. That has been the target, in the next three years, to improve by 5 points. So as for that, that's something that we believe can be achieved.

Miyasako [Q]: Well, the profitability is close to 10% for Q2 China, quite high. I feel like it is far exceeding your expectation.

Yokota [A]: Yes. For H1 specifically, yes. It's about the timing of the promotion and when we have marketing investments and costs to spend. So H1, yes, it had exceeded what we had expected or forecasted.

Looking to H2, there will be Double-11, for example, which is a big promotion. And so that will allow us to surely capture the sales. If we can continue to execute where we want, the sales go up and the bottom line will follow. Along with that, in China, there will be indirect procurement, logistic costs, and there are areas such as those where we will do capture savings. Therefore, we will be able to invest in brand-building so that we can continue to have the profitability.

Miyasako [Q]: Can I have a comment in terms of the treated water in Fukushima?

Yokota [A]: We don't see any impacts to the performance right now.

Fujiwara [A]: We're doing online monitoring and such. But of course, with that, yes, we see this kind of news online. And if the news in the media gets bigger and bigger, then we may need to make some different timings for promotions, et cetera. So, it's something we do watch.

The other thing is it might have to do with profitability. But the brick-and-mortar, the physical stores, have been performing well. That really contributes to the profitability. So, these kind of reputation impacts can be big online but brick-and-mortar, the physical stores, are not necessarily that impacted by these kinds of reputation damages. We believe that, if we can continue to work on things that we need to, we should not have any damage to that. Thank you.

Hirofuji [M]: Next question, please.

Yamanaka [Q]: Thank you very much for your briefing. Yamanaka from SMBC Nikko Securities. And so, about the water release of Fukushima, on the 12th of June when is the middle of the 618 sale, there was a test drive. I believe that I heard that there was a return of some products. What is the impact of that return?

Also, it actually peaked out on the 15th of June. What about the impact of that? I hear that the brick-and-mortar and EC performed well. But then, in Hainan Island and South Korea, there was some impact. I would like to know the impact of the breakdown.

Yokota [A]: Well, I will not mention the specific numbers, but then the return was a little higher than usual. But in comparison to the market in general, it was about the same level as the market in general in terms of the market return. Right? This is not something that is affected by any external impacts.

Fujiwara [A]: Let me add about the return products. For instance, this time, Tmall did its own promotion such as issuing coupons. By reserving the coupon, by putting the coupon in the shopping basket, you can actually accrue the coupon and you can use it for shopping elsewhere. It is not related to the release of the treated water. So basically, the percentage went up due to the retailer, the promotion, so it is not directly linked to the release of the treated water, we don't think.

Yamanaka [Q]: So, basically, the impact of the released water matter is very limited. Also, now there will be the actual release, and there may be some news, which may be propaganda. But basically, we are OK to feel that there's no significant impact.

Fujiwara [A]: Yes. We keep a close eye on the what's on the Internet and the SNS. Accordingly, we will be flexible to adapt our communication and promotional methods. We will continue our activity on that.

Yamanaka [Q]: And the last question is about this JPY10 billion upward shift. So how is it going to be materialized or affected in H2? You mean the global JPY10 billion upward shift, how much is it going to affect the outside of the term?

Yokota [A]: The JPY10 billion upward shift is excluding the timing shift.

Hirofuji [M]: The next question, please.

Kawamoto [Q]: From UBS, my name is Kawamoto. Thank you very much for your presentation today. The Japan structural reform that you had presented today, I was very happy to hear that presentation. However, looking at the past couple of years, I believe that the Company has worked to reduce the fixed costs. So, what is going to be different now? And now, even for H1, I think the inbound has gone up.

So, I believe that the skin care with high profitability grew. Thus, I'm assuming that gross margin is better in Japan. But yet, still, minus in Japan, what is going on? And the JPY50 billion that you want to aim at by 2025, what kind of number should we assume in 2024 or do you have plans to reduce the number of brands? If you have any specific numbers for the plans, I would love to hear that.

For inbound, I think the margin was about 20%. But compared to that time and compared to now, the local demand in Japan, what has been the difference? And what kind of actions will you be taking?

Fujiwara [A]: Okay. Yokota-san talk about the inbound forecast after this. But for the fixed cost reduction, yes, like you said, we have been working on it previously as well. Therefore, that's why we're finally starting to see the reduction of fixed costs helping and contributing to the improvement in profitability. What I am thinking is to further accelerate the cost reduction or to be even more bold, take bolder measures, for fixed cost reduction. And that was the point of my presentation.

Yes, it is true, we as a company have continued to work on reducing the fixed cost. But as we look at the Japanese market, the Japan business market going forward, it's not something that we can be very optimistic about. Furthermore, we do need to improve the profitability without relying on the inbound. And that's another thing that we need to think about for Japan business. In order to do so, we do need to take a further, bolder step to do the reform. That is why I had made my presentation today.

Yokota [A]: Okay, about inbound, when you look at the sales versus 2019, it is recovering. But having said that, when you look at H1, it's minus 31% versus 2019. We're still losing about 30% of the sales.

In terms of the inbound, it has gone back by about plus 30%. But having said that, when you compare it versus 2019 H1, it's still minus 60% compared to H1 of 2019. So along with that, as Fujiwara-san has just mentioned, the fixed cost, the heavy fixed cost, and the organization becoming more complex and more incremental digital cost, these are the things that kind of come together to build the numbers that we have in Japan right now.

Kawamoto [M]: Thank you very much.

Hirofuji [M]: Any other questions? Then we would like to then take questions from the online participants. Let me read out the question.

Participant [Q]: In Japan, in regard to the reform, the structural reform, what is the cost for it? What is the scale of the impact for the FY2025? Out of many initiatives, in what time period do you think you can complete the structural reform? And what about the initiatives that you would be starting already in FY2023? What are they? The structural reform necessary cost and the sense of scale and also the time frame? And when will you start and when will you complete?

Fujiwara [A]: The cost necessary for structural reform will be specifically calculated according to individual task and sum them up. And so, today, I will not be able to give you one rounded-up number. However, with this structural reform, I think sense of speed is the most important aspect. So, I may be repeating myself but JPY50 billion profit in 2025 is the target. So according to initiatives that will be started next fiscal year and some of the initiatives may wait until 2025. So in regard to the structural reform itself and initiatives associated with it, they will be made more specific going forward.

Hirofuji [M]: And there's one more question online.

Participant [Q]: The H1 performance of the Japan segment, according to the CFO, was better than what the internal forecast was. Within that, the President if you like, is determined to do the reform. So where is the gap? Was it that the H1 could have been better in terms of sales or profit?

Fujiwara [A]: So yes, H1, we are improving. But yes, there are areas of improvement that we can obviously capture. Of course, compared to last year, the profit ratio, is improving significantly. But even with the business performance right now, we still have negative performances in Japan, which means that we need another step, a further step, to do the reform is where my determination came from.

We are doing various structural reforms. And if we continue to do what we're doing, of course, I believe that profit will improve.

But as we continue to grow, we need to improve the profit. And that can't be achieved just by cost-cutting. There needs to be a business model transformation or, furthermore, touch into the areas which we have not touched upon in the past. That's something we need to work on to create a business model that is profitable from 2025 and onwards.

The Japan business is a very important market for us, even within our global presence, so we need to improve the profitability. And even as we improve the profitability, we need to create new value and continue to grow. I want to make sure we can make the Company stronger so that we can link it to the next level. That's why I had made the [determination] for the reform.

Hirofuji [M]: One more question from the venue.

Matthew [Q]: Matthew from CLSA. About the e-commerce in Japan, I would like to ask a question. From 10% at the moment to 30%, so it grew by three times. I think the number should be good. But then, from the brand perspective, what is the brand that is most popular in EC? So what is the brand strategy for EC?

Fujiwara [A]: One of the things we do is, certainly, Prestige has good opportunities. In particular, the skin care brands can expect a repeated purchase, so there are more opportunities. Also, not so much about the brand, but I myself was a bit surprised recently, when we look at the customer generation, there are customers who are more than 60 years or older actually watch YouTube, they enjoy SNS, and they use e-commerce. And so, in fact, this was the unattended cohort up to now. So when we think about the channel that we think exists, we may be missing out on a lot of opportunities. That's the gut feelings that we have.

So, we should monitor the purchase behavior of the customers and also the wider range of the age and generation and also the way they use the digital. And so we should be able to expand on the customer base for EC.

Hirofuji [M]: Another question?

Ohana [Q]: My name is Ohana from Nomura Securities. I have a question about Travel Retail. If possible, H2, the increase in profit or improvement in profit, how do you look to H2? Looking at the Hainan Island or the South Korea restrictions, to what level will this restriction continue or how do you forecast it? So next year and the year after, as you try to improve the OP margin by 3pts, Travel Retail, in terms of the profitability, I believe, has a high profitability ratio. So China and Japan, can China's and Japan's growth offset or cover up for all the Travel Retail. So, I would just like a further detailed comment about Travel Retail.

Yokota [A]: For South Korea and Hainan Island sellout, Q2 and H1, the gap with the original forecast is about 10 points. Sell-in and sellout at the same level are behind. In H2, for South Korea, we believe it will continue for about another two to three months. For Hainan Island, in June, the impact started happening in June. In June, for Hainan Island, the decline is high-teen percentage for sellout. So, there's been some inventory adjustments.

Ohana [Q]: How would that proceed? Will that be over the next three months, or will that be prolonged a bit longer than that?

Yokota [A]: That's something that we're not sure about at the moment, but we need to watch cautiously.

Ohana [Q]: Inventory adjustments, as you proceed with the inventory adjustments, will Travel Retail go back to the double-digit growth as before or will these kind of restrictions continue? So, meaning that the sellout itself should be a declining trend. How do you forecast this?

Yokota [A]: As for Hainan, on a YTD basis, people traveling to Hainan Island by airplane is increasing by about 100% YoY. I actually flew there in June myself.

June is a low season. Even though June is a low season, the high-end retailers are investing significantly, and it is becoming a place for domestic travel for the people. So, I believe that, in the mid- to longer term, I'm quite optimistic in terms of the business opportunities in Hainan Island.

Ohana [Q]: So if that is the case, so if it's going to be in the next few months or maybe six months or so, do you think it would kind of do a full circle within the year and that this is not something that we need to really worry about for next fiscal year?

Yokota [A]: That is what we think. We think it will recover. As for this year, if I could call it a channel, but what's most important is that we have the products that can meet the demands of the Chinese consumers. We have been doing that communication mainly in Mainland China. So, from there, we want to grasp and capture the needs of the Chinese consumers and turn it into purchases. If we can do that, we can expect upside in the Mainland, too. So yes, temporarily, there is the inventory adjustment impacts in these Travel Retail areas.

Ohana [M]: Okay. Thank you very much.

Hirofuji [M]: One more question from online participants.

Participant [Q]: Later, there will be an announcement on the Chief People Officer. What do you expect out of this role?

Fujiwara [A]: One thing in relation to the reform in Japan, we expect that there will be a substantial reform on the culture and also the execution of the initiatives that are a must for us. In addition to HR in the Japan business, there need to have the significant support by the global headquarters as well. So, I would like this Chief Peoples Officer to be part of the reform drivers. So I, Chief People Officer and Chief Marketing Officer, will lead the way considering our strengths across the Company.

Hirofuji [M]: Now, the next question will be the last question. The person in the gray jacket.

Sato [Q]: Thank you. This is my second question, from Mitsubishi. My name is Sato. I actually wanted to ask this question for the first time around. In Japan, you will be taking place, Mr. Fujiwara, as Chairman. Now, Tadakawa-san is President of Japan business, and I'm sure you're not saying that Tadakawa-san is not doing a good job. But as a result of Fujiwara-san becoming the Chairman of Japan business, I understood your presentation, but what will change? And how should we understand or interpret it? Looking at your background, you've been overseas. You've been very international.

As a result of Mr. Fujiwara becoming the Chairman of the Japan business, will you be taking the position because you have the authority, if you make people movements, it will be more convincing, or working with the drug stores, the retail shares? Well, you've [transferred] the business, so you're reducing some of the sales sides in drugstores because the Chairman is saying you'll get more shelves in the drugstores, for example. So, what is going to change specifically as a result of Mr. Fujiwara becoming Chairman of the Japan business?

Fujiwara [A]: Yes. Mr. Tadakawa and I, we are greatly appreciative of what a great job he has done for the Japan business. One big perspective to mention is I am the COO of the overall Shiseido Group. And as Group COO, I have a very strong emphasis on the importance of the Japan business of Shiseido as a global company and also feel the sense of urgency through all the discussions that we've had internally and because I have done a lot of my business background in the international field.

What's normal in Japan is actually not necessarily a normal practice. For example, why is Japan business so focused on this? Why are they not doing this? I think, because of my international experience, I can see it better maybe. That gives me a better or different perspective.

And as I spoke at the beginning of my presentation because Shiseido has such a long history, I think there are perspectives that are missing or that are unseen. And so yes, I myself have been with Shiseido Company for a very long time, but because I have been overseas a lot of my years, what is normal in the Japan business rules or the way we do the business, maybe it's not matching the consumers or the business practice now. There are areas that we're seeing this.

And then, of course, there are things that aren’t matching the modern times internationally, too. But so from that kind of new perspective, I believe that the speed of innovation or the reform and execution speed is something that I believe that I can -- if I can say so myself -- I can contribute to the speed of these reforms for the Japan business.

Hirofuji [M]: Thank you very much. Now I would like to wrap the Q&A session. With this, we would like to close our presentation today.

We will have a questionnaire survey for you from the IR division. We would like to continue to enhance and improve our IR activities, so we would love your feedback. Thank you very much for your support in advance. Once again, thank you very much for your participation today out of your busy schedules. Thank you.

[END]

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Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
4. *This document has been transcribed based on interpreted audio provided by the Company.*

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