



Shiseido Company, Limited

2023Q3 Financial Results (January-September)

November 10, 2023

Event Summary

[Company Name]	Shiseido Company, Limited	
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[Event Name]	2023Q3 Financial Results (January-September)	
[Fiscal Period]	FY2023 Q3	
[Date]	November 10, 2023	
[Time]	17:30 – 18:35 (Total: 65 minutes, Presentation: 21 minutes, Q&A: 44 minutes)	
[Venue]	Webcast	
[Number of Speakers]	3	
	Kentaro Fujiwara	Representative Director, President and COO
	Takayuki Yokota	Director, CFO
	Ayako Hirofuji	Vice President, IR Department

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Presentation

Hirofuji: Thank you very much for joining us and we are grateful that investors and analysts have joined to Shiseido Q3 2023 results briefing. There are a few housekeeping announcements before we start the briefing sessions.

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 am Hirofuji from IR Department, and I will be the moderator for today.

Today, we would like to explain the overview of Q3 results and important business agenda.

After that, we would like to have a Q&A session. We plan to finish the whole program at 18:30, 6:30 PM.

This briefing session will be available on our website after its ending. Now I would like to have Mr. Yokota to explain 2023 Q3 results for the first nine months and full-year outlook for 2023.

2023 Q3 Key Headlines

**Japan Local Continued Recovery, Americas and EMEA Remained Strong
Sales Declined in Q3 due Primarily to the Weakness in China and Travel Retail,
Affected by Consumer Pullback on Purchases of Japanese Products
due to the Treated Water Release in Japan**

- **Like-for-like (Lfl)* Net Sales: Q3 YTD +5% / Q3 -2%**
 - Japan local continued steady recovery in mid-to-high price range
 - Strong momentum continued in Americas and EMEA
 - Weakness in China and Travel Retail due to retailer inventory adjustments associated with tighter regulations and consumer pullback on Japanese products due to the treated water release, with Japan's inbound sales also falling short of expectations
- **E-commerce (EC) sales ratio: 32%**
 - Flat YoY in 3Q YTD impacted by the suspension of KOLs live-streaming in China
- **Core operating profit: ¥36.8 bn, +¥0.6 bn YoY**
 - Declined YoY in Q3 due to lower gross profit reflecting a decline in sales, but delivered YTD growth bolstered by the strong sales growth in 1H
- **Integration of the two factories in Osaka in 1H 2026**

* Like-for-like increase (decrease) excludes the impact from FX and all business transfers in the first nine months of 2023 and the first nine months of 2022 as well as the services provided during the transition period ("business transfer impacts")

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Yokota: I would like to present Q3 2023 results. To begin, please see page three.

First, here's the summary of Q3 2023 financial results.

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On a like-for-like basis, excluding the impact of foreign exchange and business transfers, net sales increased 5% on a YTD basis and turned negative 2% in the three months from July to September.

Local sales in Japan continued to recover steadily in the mid-to-high-end price range, mainly due to the strengthening of new product development.

Sales in the Americas and Europe also remained strong especially for the global brands.

On the other hand, in South Korea and Hainan Island Travel Retail, inventory adjustments and the distribution channel due to tightening regulations continued, resulting in low shipment levels.

In addition, after the release of treated water in late August, consumers became reluctant to purchase Japanese products which affected our China, Travel Retail and Japan inbound businesses.

The e-commerce ratio was 32% and e-commerce sales turned negative in Q3 and grew flat on a YTD basis, due to the suspension of live streaming in China after the release of the treated water.

Core operating profit was JPY 36.8 billion. Although profit declined in Q3 due to a marginal decrease in profit resulting from lower sales, a large increase in profit in H1 led to a JPY 0.6 billion increase in the cumulative profit.

In addition, the decision was made to integrate two plants in Osaka and an impairment loss of JPY 6 billion associated with the plan was reflected in Q3.

We also announced revised earnings forecasts today. In particular, we have revised our estimates in light of the impact of consumer pullback on purchases of Japanese products in China and Travel Retail after the release of treated water.

I will explain the details at the end of my presentation.

2023 Q3 YTD (January–September) Executive Summary

(Billion yen)	2022	% of Net Sales	2023	% of Net Sales	YoY Change	YoY Change %	YoY FX-Neutral %	YoY Lfl ² %
Net Sales	762.7	100%	722.4	100%	-40.3	-5.3%	-8.9%	+5.0%
Core Operating Profit	36.2	4.8%	36.8	5.1%	+0.6	+1.6%		
Non-recurring items	-0.6	-0.1%	-11.0	-1.5%	-10.4	-		
Operating Profit	35.7	4.7%	25.8	3.6%	-9.8	-27.6%		
Profit Before Tax	43.6	5.7%	28.7	4.0%	-14.9	-34.1%		
Income Tax Expense	11.8	1.5%	7.1	1.0%	-4.8	-40.3%		
Profit Attributable to Owners of Parent	29.0	3.8%	20.5	2.8%	-8.5	-29.4%		
EBITDA ^{*1}	74.6	9.8%	75.1	10.4%	+0.6	+0.8%		

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

Net Sales: Japan local continued steady recovery in mid-to-high price range, Americas and EMEA remained strong

Weakness in China and Travel Retail due to consumer pullback on Japanese products due to the treated water release, with Japan's inbound sales also falling short of expectations

Core Operating Profit: Declined YoY in Q3 due to lower gross profit reflecting a decline in sales, but delivered YTD growth bolstered by the robust sales growth in 1H

Non-recurring items: 2023: Losses incurred by Kuki Factory transfer, gain on sales of fixed assets, and an impairment loss on the integration of two factories in Osaka

Profit Before Tax: Finance income/costs: declined by ¥6.5 bn

EBITDA: EBITDA margin 10.4%

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Next page four is the P&L summary.

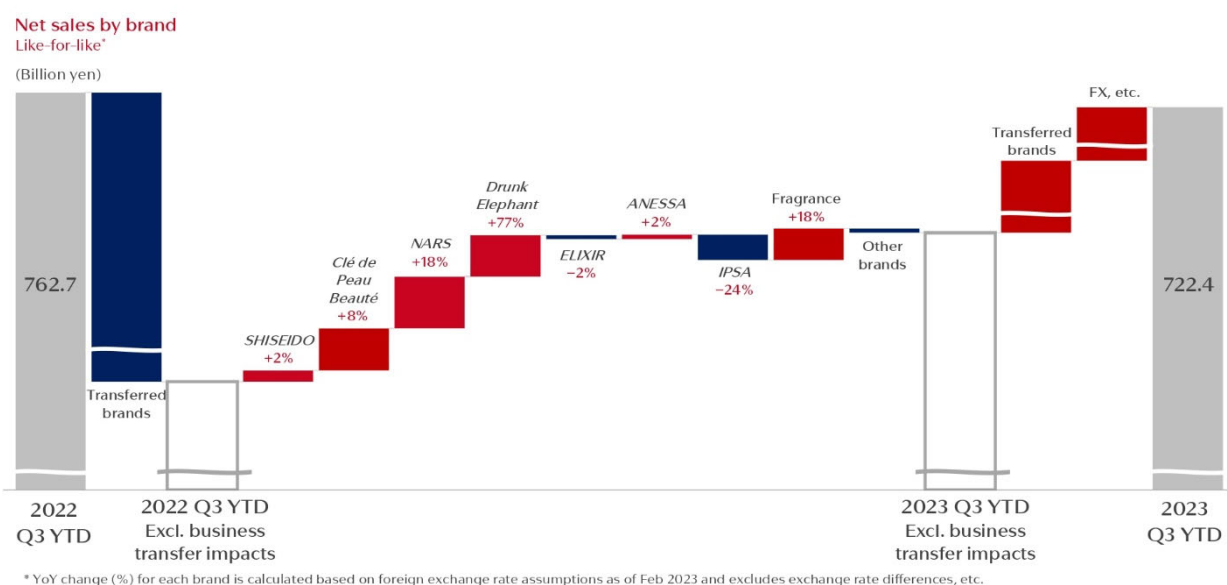
Core operating profit increased JPY 0.6 billion YoY to JPY 36.8 billion. Operating profit was JPY 25.8 billion, a decrease of JPY 9.8 billion.

In addition to non-recurring items related to the transfer of the Kuki plant in H1, an impairment loss associated with the decision to integrate the two Osaka plants and the gain on sales on fixed assets such as offices were recorded in Q3.

Profit attributable to owners of the parent declined JPY8.5 billion YoY to JPY20.5 billion.

EBITDA increased to JPY0.6 billion YoY to JPY75.1 billion with an EBITDA margin of 10.4%.

Softness in China and Travel Retail Offset by Steady Growth of *Clé de Peau Beauté*, *NARS*, *Drunk Elephant* and *Fragrance*



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Next is page 5, the results by brand.

The slowdown in China and Travel Retail in Q3 impacted the overall performance, but we saw a significant increase in sales of Clé de Peau Beauté, NARS, Drunk Elephant, and our Fragrance brand Narciso Rodriguez all grew strongly, contributing to overall performance.

Clé de Peau Beauté also maintained a high YTD growth rate, mainly in Japan, China and Europe, thanks to strong growth in H1. The growth was driven by the success of our strategies to enhance brand equity such as new product innovation and focus on functionality and efficacy, as well as the strong performance of the prestige market overall. NARS continued to perform well, thanks to the new product launches this year in addition to the Light Reflecting Foundation which has continued to perform well since its launch last year. Drunk Elephant also continued its strong growth momentum.

On the other hand, in the Asia brands, ELIXIR posted negative growth due to the impact of treated water in China and Travel Retail, while the strong growth from ANESSA in Japan was also offset by the negative growth

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in Travel Retail. IPSA continues to be adversely impacted by the weakness in China and Travel Retail and we are working to develop new hero products.

The Fragrance business continue to perform well, driven by the strong performance of All of Me, a new product from Narciso Rodriguez, driving overall growth.

Net Sales : Negative Growth in Q3 Affected by the Decline in China and Travel Retail

Like-for-like*	2023							
	vs. 2019				vs. 2022			
	Q1	Q2	Q3	Q3 YTD	Q1	Q2	Q3	Q3 YTD
Japan	-32%	-29%	-27%	-29%	+8%	+9%	+6%	+8%
China	+10%	+43%	+4%	+20%	-3%	+20%	-9%	+4%
Asia Pacific	+1%	+5%	+10%	+5%	+16%	+12%	+15%	+14%
Americas	+67%	+46%	+46%	+52%	+30%	+18%	+10%	+18%
EMEA	+30%	+19%	+27%	+26%	+22%	+11%	+15%	+16%
Travel Retail	+30%	+2%	-12%	+6%	-4%	-4%	-25%	-11%
Total	+0%	+4%	-5%	-0%	+7%	+10%	-2%	+5%

* Excluding FX and business transfer impacts

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Next is page 6, our sales trends.

In Q3, overall global sales were down 2% YoY on a like-for-like basis due to lower sales in China and Travel Retail.

After the first release of treated water in late August, China and Travel Retail were impacted by reluctance to buy Japanese products. In addition, retailers continue to adjust their inventories due to tightening regulations in Hainan Island and South Korea.

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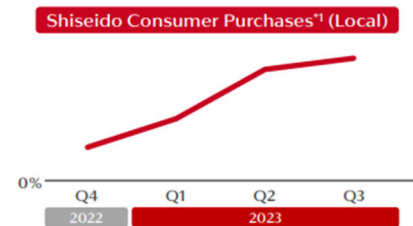


Japan: Continued Growth in Mid-to-High Price Range, Boosting the Total Market Share Gain

- Q3 Market:
 - Local: Low price ranges drove the market growth; middle price range on a recovery track
Growth led by makeup and sun care categories
 - Inbound: Grew strongly in July and August with rebound in inbound tourism before slowing down in September



- Shiseido Consumer Purchases*1: Q3 YTD **+high single digit%** / Q3 **+low teen%**
 - Local : **+high single digit%** / **+high single digit%**
 - SHISEIDO : **+low teen%** / **+mid teen%**
Clé de Peau Beauté : **+mid teen%** / **+high teen%**
Loyal users steadily increased
 - ELIXIR : **+high single digit%** / **+low teen%**
 - ANESSA : **+over 40%** / **+over 40%**
 - EC : **+low teen%** / **+low teen%**
 - Inbound : **+high 20%** / **+high 20%**



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

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Next is page 7, our Japan business. The market is definitely improving.

First, in the local market, the structure continues to be driven overall by growth in the low-price range.

The mid-price range was flat YoY through Q2 but slightly improved in Q3 and it is on a recovery track.

Under these circumstances, we continued to concentrate marketing investments in our core brands in the mid-to-high price range, which is our focus area, and have steadily expanded the number of loyal consumers, significantly increasing the market share in Q3. Consumer purchase in the local market is growing steadily every quarter and we saw a high single-digit growth in Q3 on YTD basis.

By brand, Shiseido and Clé de Peau Beauté continued double-digit growth with low teen% YoY and mid teen% YoY respectively, significantly outperforming the market. The effect of strengthening product appeals through innovation and the timely launch of the new products in response to the recovery and demand also contributed to these results.

As for ELIXIR, despite a higher hurdle created by the last year's renewal of lotion and emulsion followed by the relaunch of a wrinkle cream, one of its hero products, in the last September, it still achieved strong growth in Q3 with low teen% YoY growth and expanded its market share.

In addition, ANESSA captured growing opportunities to go out and steadily expanding its share in the sun care market which continues to shift towards lower-priced range products.

Japan's inbound sales delivered high 20% growth, with strong growth in July and August before slowing down in late August after the release of treated water, notably in September, resulting in results significantly lower than our initial expectations.

In the Q4, we have strong product launches underway, which will likely accelerate local sales growth going forward.

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China: Negative Growth in Q3 by Consumer Pullback on Japanese Products due to the Release of Treated Water in Japan

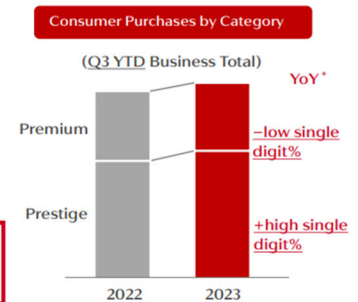
- Q3 Market:
 - Grew marginally in Q3 after the strong rebound in Q2
 - Consumer pullback of Japanese product by the treated water release



- Shiseido Consumer Purchases*:
 - Business Total** : Q3 YTD +low single digit% / Q3 -low teen%
 - Offline : +high single digit% / -mid single digit%
 - EC : flat / -high 20%
 - Mainland China : +low single digit% / -low teen%
 - SHISEIDO : +low single digit% / -low 20%
 - Clé de Peau Beauté : +mid 20% / +low teen%
 - NARS : +low teen% / +high single digit%
 - Hong Kong : +high single digit% / -low 20%

Restricted marketing activities overall, after the treated water release in late August, such as suspension of streaming on KOLs and new product campaigns

* Excluding FX and business transfer impacts



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Next is page 8. I will explain about our China business.

In Q3, the market grew only slightly and slowed down partially due to the release of treated water.

Our consumer purchases slowed down significantly with -low teen% in Q3 and +low single digit% Q3 YTD. Following the release of treated water, we carved overall marketing activities and managed costs such as suspending live streaming by KOL and canceling promotions of new products in e-commerce sales. Especially in Q3, consumer purchases in e-commerce were down high 20%, which was significantly lower than last year.

Under such circumstances, brand SHISEIDO struggled, with a decline of low 20% in Q3, even with the launch of the new Eudermine. But the high-prestige Clé de Peau Beauté grew +low teen% while NARS also continued solid performance, growing +high single digit% in Q3.

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Travel Retail: Negative Growth Widened in Q3 amid Consumer Pullback on Japanese Products due to the Treated Water Release in Japan

● Q3 Market:

- Retailer inventory adjustments associated with tighter regulations continues in Hainan Island and South Korea
- Consumer pullback of Japanese product by the treated water release

● Shiseido Consumer Purchases*

Global : Q3 YTD -low single digit% / Q3 -low teen%

➢ Asia : -mid single digit% / -high teen%

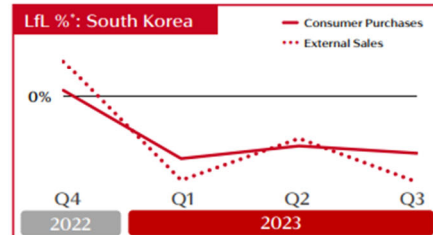
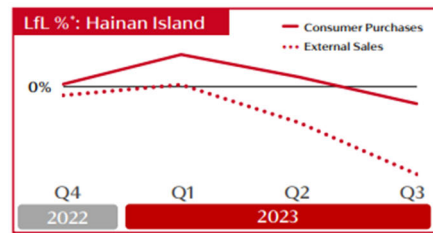
- Hainan Island : +high single digit% / -low teen%

- South Korea : -over 30% / -over 30%

➢ EC (Asia) : -low teen% / -over 30%

* Excluding FX and business transfer impacts

Steady optimization of inventory levels



Now we move on to the Travel Retail on page 9.

The market continued to be affected by retailer inventory adjustments in light of tightening regulations as well as consumer pullback on purchases of Japanese products after the release of treated water.

The Company's Q3 consumer purchases were -low teen% globally and -high teen% in Asia, excluding Japan.




The chart on the right shows YoY comparison from Hainan Island and South Korea, respectively, using the solid line for consumer purchases and the dotted line for external sales.

As you see from the difference between the solid line and dotted line, external sales were lower than consumer purchases, meaning inventory levels continued to be optimized.

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Americas	EMEA	Asia Pacific
<p>Continued to grow across all categories with further expansion</p> <p>● Shiseido External Sales^{*1}: <u>Q3 YTD +18%</u> / Q3 +10%</p> <ul style="list-style-type: none"> ➢ <i>Drunk Elephant</i>: <u>+over 90%</u> / +over 60% ➢ EC: <u>+high teen%</u> / +low teen%  <p style="text-align: center;"><i>Drunk Elephant</i></p>	<p>Continued to grow across all categories with further expansion</p> <p>● Shiseido External Sales^{*1}: <u>Q3 YTD +16%</u> / Q3 +15%</p> <ul style="list-style-type: none"> - Excl. Russia: <u>+25%</u> / +27% ➢ <i>NARS, Drunk Elephant, narciso rodriguez</i>: robust growth ➢ EC: <u>+high teen%</u> / +mid teen%  <p style="text-align: center;"><i>narciso rodriguez</i></p>	<p>Continued to grow across regions</p> <p>● Shiseido External Sales^{*1}: <u>Q3 YTD +14%</u> / Q3 +15%</p> <ul style="list-style-type: none"> ➢ <i>SHISEIDO, NARS, Drunk Elephant</i>: strong growth ➢ EC^{*2}: <u>+low teen%</u> / +low teen%  <p style="text-align: center;"><i>SHISEIDO</i></p>

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

Next, on page 10, we take a look at the Americas, Europe, and Asia Pacific which delivered strong double-digit growth.

In both Europe and the Americas, market continued to grow in all categories, while brands NARS and Drunk Elephant enjoyed continued momentum.

In Europe, SHISEIDO and Narciso Rodriguez also achieved robust growth.

In Asia Pacific, markets continue to grow in all major regions and the Company also continued to realize good results, expanding our overall market share.

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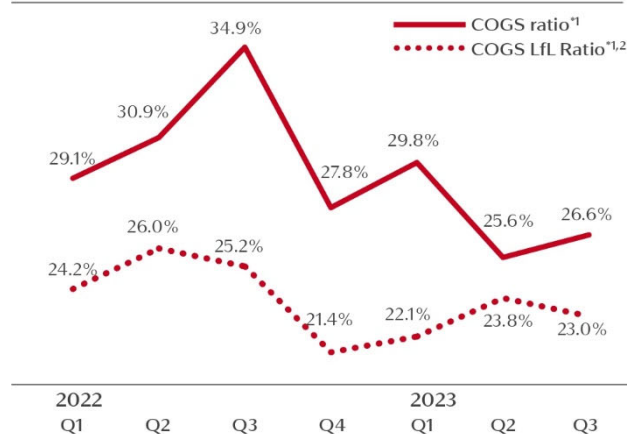
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COGS LfL Ratio: Improved ca. 2pts YoY with Productivity Improvement, etc.

	2022 Q3 YTD	2022 FY	2023 Q3 YTD
COGS Ratio ^{*1}	31.8%	30.6%	27.3%
COGS LfL Ratio ^{*1,2}	25.2%	23.9%	23.0%



^{*1} The scope of accounting for cost of sales has been changed in Q3. As a result, the figures for 2022 and 2023 have been revised due to the retrospective application of a change in accounting
^{*2} Excluding business transfer impacts and impairment losses, etc.
^{*3} Manufacturing Service Agreement

Q3 YTD YoY COGS analysis

- (+) Higher productivity
- (+) Moderation of logistics cost pressures
- (+) Decline of the impact from MSA^{*3} for business transfers (2022 4.9pts -> 2023 2.8pts)
- (-) Higher allowance for excess inventory write-offs
- (-) Change in cost accounting method for samples
- (-) Impairment loss and structural reform expenses on transfer of Kuki Factory (0.6pts)
- (-) Impairment loss of ¥6.0 bn on the integration of two factories in Osaka (0.8pts)
 (Cost optimization: ¥3.0-4.0 bn / year from 2026 onwards)

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Next is the COGS ratio on page 11.

The YTD COGS ratio compared with the same period of the previous year, steadily improved by approximately 2% points due to productivity improvement as a result of the shift to in-house production and the moderation of rising logistic costs.

In Q3, we recognized an impairment loss of JPY6 billion incurred by the integration of the two factories in Osaka. We expect to see an impact of JPY3 billion to JPY4 billion per year by productivity improvement after the integration in 2026.

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2023 Q3 YTD Core Operating Profit by Reportable Segment

Japan :	Returned to profitability in Q3 benefitted from higher gross profit driven by sales growth
China :	Significant improvement in profit supported by higher gross profit driven by sales growth in 1H and agile cost management, despite YoY decline in Q3
Asia Pacific :	Delivered higher gross profit driven by sales growth, but declined YoY due to marketing enhancement, etc.
Americas / EMEA :	Higher gross profit driven by sales growth, but declined YoY impacted by business transfers, etc.
Travel Retail :	Declined by lower gross profit due to lower sales
Other / Adjustments :	Lower gross profit due to decline in sales partially offset by reduction in elimination of unrealized gains incurred by inventory reduction

Core Operating Profit (Core OPM)	(Billion yen)				
	2022		2023		YoY
Japan	-5.9	(-3.2%)	-0.2	(-0.1%)	+5.7
China	-8.7	(-5.0%)	2.0	(1.1%)	+10.6
Asia Pacific	4.1	(8.0%)	1.7	(3.3%)	-2.4
Americas	6.8	(6.7%)	6.5	(7.6%)	-0.3
EMEA	8.6	(8.8%)	4.4	(5.0%)	-4.2
Travel Retail	26.8	(22.3%)	19.0	(17.4%)	-7.9
Other	7.0	(3.1%)	-3.7	(-1.9%)	-10.8
Adjustments	-2.5	-	7.3	-	+9.7
Total	36.2	(4.8%)	36.8	(5.1%)	+0.6

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Next, on page 12, I will explain core operating profit by reportable segment.

In Japan, OP improved thanks to higher gross profit driven by the sales growth. It returned to profitability in Q3 although the cumulative total was slightly short to breakeven.

In China, sales growth in the H1 was a factor in the improvement. In Q3, flexible cost management contributed to the profit increase despite the decline in sales.

In the Travel Retail business, profit declined sharply due to the lower gross profit caused by lower sales.

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2023 Outlook: Revised in Light of Changing Market Environment in China and TR

- Consumer pullback on Japanese products due to the treated water release
- Travel retail inventory reset following tighter regulations and retailers shifting back towards the business model with focus on tourists
- Changes in Chinese consumer behavior

(Billion yen)	2022	2023 Previous Forecast (Feb. 2023)	2023 Latest Forecast	% of Net Sales	YoY Change	YoY Change %	YoY FX-Neutral %	YoY Lfl ¹ %	Change vs. Previous
Net Sales	1,067.4	1,000.0	980.0	100%	-87.4	-8.2%	-12%	+2%	-20.0
Core Operating Profit	51.3	60.0	35.0	3.6%	-16.3	-31.8%			-25.0
Profit before Tax	50.4	47.0	27.0	2.8%	-23.4	-46.5%			-20.0
Profit Attributable to Owners of Parent	34.2	28.0	18.0	1.8%	-16.2	-47.4%			-10.0
EBITDA ²	102.4	120.0	88.0	9.0%	-14.4	-14.1%			-32.0
Dividend (yen / share) (Forecast)	Ordinary Dividend: 50 Interim: 25 Year-end: 25 the 150th Anniversary: 50	60 Interim: 30 Year-end: 30 -	60 Interim: 30 Year-end: 30 -						

Exchange rates for 2023 (Latest Forecast): USD 1 = JPY 140 (YoY +6.5%), EUR 1 = JPY 150 (+8.7%), CNY 1 = 19.8 (+1.5%)

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

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Lastly, on page 13, our outlook for the current fiscal year.

Given the significant market environment change, we will make a revision on the full-year forecast this time.

The impact of the consumer pullback on Japanese products after the release of treated water was not anticipated in our initial plan, and resulted in a significant sales decline.

The impact on inventory reset in Travel Retail was largely factored in as of August, but we anticipated the impact would be even greater like a couple of billions.

The recent Double 11 trend shows the changes in China's consumer purchasing behavior showing decline in bulk purchases due to uncertainty about the future.

Hence, we have revised our forecast for like-for-like growth from 11% to 2%.

Although the decline of gross profit due to sales decline will be partially offset by flexible cost management and the positive impact of yen depreciation, core operating profit is now estimated to be JPY35 billion, down JPY25 billion. Net income attributable to owners of the parent is estimated to decrease by JPY10 billion to JPY18 billion.

In addition to the impact of the market environment change, this includes a gain on sales of fixed assets, such as offices and impairment losses due to integration of 2 factories in Osaka, which was not in the initial plan.

EBITDA will be JPY88 billion, EBITDA margin will be 9%.

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Hirofuji: Next, we would like to invite Mr. Kentaro Fujiwara, President and COO, to present on the important business agenda.

Medium-Term Strategy SHIFT 2025 and Beyond

Building a Path to Sustainable Growth: Achieving Profitability through Proactive Investment and Structural Reforms

For Further Global Growth Acceleration

- Rebuild earnings base by bringing back growth in Japan
- Win in China (China Business, Travel Retail Asia)
- Build a foundation for growth in Americas as the next growth pillar
- Develop new markets for the future

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Fujiwara: Now I would like to talk about the important business agenda.

In medium-term management strategy plan, we aim to achieve stable growth by shifting to a highly profitable structure through proactive investments and structural reforms.

To achieve this goal, the top priorities are to build earnings base by bringing back growth in Japan and to win in China.

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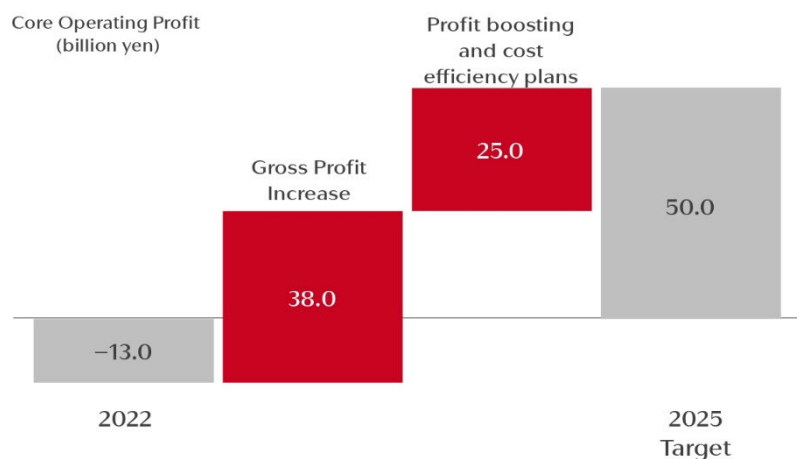
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Japan: Achieving Core Operating Profit of ¥50.0 bn in 2025

Profit boosting and cost efficiency plans

To complete all actions by the end of 2024 for full benefit realization in 2025



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The outline of the reform in Japan was explained in the August earnings briefing. Today, I would like to share the progress to date.

Regarding reforms in Japan, we are working to change the overall business structure of profitable businesses in order to achieve sustainable growth.

Based on a core operating loss of JPY13 billion in 2022, we aim to generate core operating profit of JPY50 billion in 2025 by generating JPY38 billion in gross profit increase, resulting from the sales growth and JPY25 billion through profit boosting initiatives and efficiency plans.

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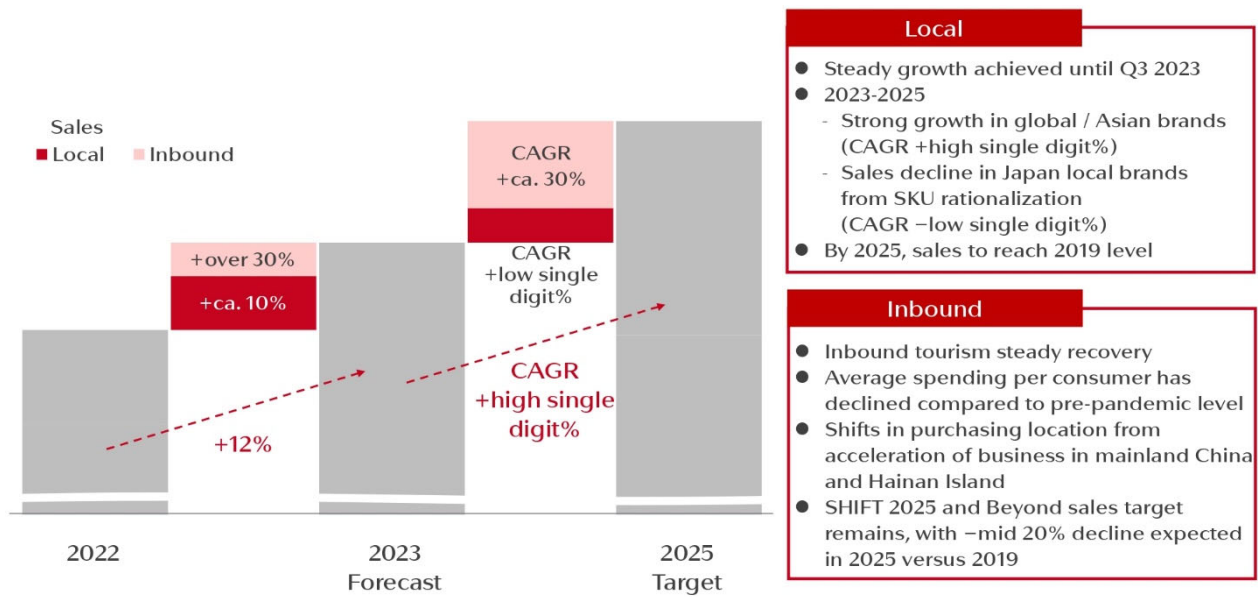
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Japan: Driving Sales Growth Towards 2025



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The sales have continued to make steady progress during the Q3 2023, thanks to the recovery from the COVID-19 pandemic, the launch of new innovative products and marketing investments.

Overall, local sales are projected to grow in the low single digits compared to 2023. This will be achieved by selection and concentrating of brands while focusing on the global Asia brands, where we aim for a strong growth in the high single-digit growth rate, same as this year. On the other hand, we expect to decline sales of the Japan exclusive brands as a result of optimization, including SKU reduction. As a result, sales in 2025 are expected to achieve the same level as in 2019.

In the meantime, inbound sales recovery is expected to be minus mid-20% level in 2025 compared to 2019 due to a decrease in per capita purchase amount and the shift in the purchase locations by Chinese tourists despite the positive aspects of a steady recovery in the number of visitors to Japan.

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Japan: ¥25.0 bn Profitability Improvement Plans towards 2025

➤ COGS: ¥5.0 bn

- SKU Rationalization - Reduce 1/3 of SKUs from 2022 level
- Profitability improvement from brand mix by focusing on global / Asian brands
- Strategic price increases
- Return reduction through improving operational efficiency

➤ Marketing and Other Expenses: ¥10.0 bn

- Samples / marketing promotional items: optimization in logistics operation from manufacturing to purchase orders and inventory management
- IT systems: streamline current systems by the end of 2024
- Offices / direct managed stores optimization

➤ Organizational Productivity: ¥10.0 bn

- Control hirings, natural attrition
- Special early retirement system

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Next, as measures to improve profitability by JPY25 billion, COGS improvement of JPY5 billion include SKU optimization, brand mix improvement, strategic price increases, reduction in product returns.

Another JPY10 billion will achieve marketing and other expenses, including streamlining of samples and promotional items, logistics operations and streamlining of IT systems.

Also, JPY10 billion will be realized organizational productivity improvement and optimization of human resources allocations.

All of these profit boosting and cost efficiency initiatives will be implemented by the end of 2024, and the Company aims to transform itself to a highly profitable structure from the beginning of 2025.

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Our Views on Current China Market Environment

Changes and Issues	Our Analysis and Outlook
Consumer pullback on Japanese products due to the treated water release	<ul style="list-style-type: none"> ● Treated water release challenge will be temporary, and expected to be normalized by the end of Q1 2024 ● To monitor market changes closely, and act with agility
Changes in Chinese consumer behavior and market slowdown	<ul style="list-style-type: none"> ● Consumers becoming pragmatic (focus on functionality and efficacy) and bi-polarization of consumption ● Changes in spending pattern reducing big purchases during promotions (events & travel) ● Trade-ups by an increase in middle class population in tier 3-5 cities ● Full recovery of travel to Japan, South Korea and Hainan Island
Travel retail inventory reset following tighter regulations	<ul style="list-style-type: none"> ● South Korea: Inventory expected to be normalized by the end of 2023 ● Hainan Island: Ongoing retailer inventory adjustments, expected to be normalized by the end of Q1 2024 ● Market normalization from tourist activity resumption

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Next, I will explain our view on Chinese market environment.

First, we assume that the impact of consumer reluctance to buy Japanese products after the release of treated water will normalize by Q1 2024. We will continue to closely monitor changes in the market environment and take prompt actions accordingly.

Next, regarding the purchase and behavior of Chinese consumers and the market slowdown, we believe that consumer needs will become more essential with a focus on functionality and efficacy with bi-polarization of consumption.

In terms of purchasing behavior, we believe that discounts will become the norm, bulk purchase will decline, the ratio of sales at big events will decrease, and the market will shift towards a more mature market.

In the meantime, we expect to see growth opportunities in the regional cities below the tier 3 level as the middle class expands and the trade up and domestic international travel recovers.

As for the tightening of the regulations and the inventory adjustments in the Travel Retail sector, inventory levels in South Korea are expected to be appropriate by the end of 2023 as a result of the efforts made since the beginning of the year.

In Hainan Island, retailer inventory adjustments have progressed and is expected to be optimized by the end of Q1 2024.

Travel Retail business is expected to normalize, markets with greater focus on tourists to a traveler-centered market in the future.

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China, TR: Business Transformation to Build Resilience and Profitability

- Chinese market continues to be strategically important
- Accelerate business transformation to achieve sustainable growth and profitability in a dynamic market environment
- Maximize business opportunity by taking a cohesive approach for China and Travel Retail



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China and environment surrounding it will continue to change, but the Chinese market with this overwhelming size will remain strategically important.

What is important is that in light of these market changes, we will strive to achieve stable growth by transforming our business structure to one that can generate higher profits than ever, even in the midst of change.

In addition, the Travel Retail has become a normalized channel of purchasing opportunities for Chinese consumers. We will further evolve our integrated approach to China and Travel Retail.

The framework of the structural reform of the China business will include portfolio and marketing reforms to achieve growth in the face of change.

We will identify growth areas and promote selection and concentration. Specifically, we will select brands, products, channels, and SKUs to achieve growth and efficiency.

We will continue to reduce the composition ratio of large-scale events, which we have been doing until now in order to strengthen sales during normal times due to changes in the market.

In terms of growth opportunities, we will strengthen our investments in high prestige and high functionality and effectiveness and accelerate our expansion into tier 3 and lower-tier regional cities.

At the same time, we will strategically raise prices, regularize unauthorized sales and strengthen management in order to generate stable and high profits.

In the operation system, we will reduce the ratio of fixed cost to sales by optimizing the store front structure and the organization and strictly controlling personnel costs, while reducing cost by localizing samples and outsourcing operations in-house.

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By implementing these structural reforms, we will quickly transform our profit structure while continuing to invest in marketing that leverages consumer data, strengthen our brand power, and implement locally driven innovations to realize sustainable business growth in this huge market.

Thank you very much for your attention.

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Question & Answer

Hirofuji [M]: Thank you very much. Now we would like to open the floor for Q&A.

First of all, JPMorgan, Kuwahara-san, please.

Kuwahara [Q]: Kuwahara speaking from JPMorgan.

The current situation, overall, you reduced the OP guidance this fiscal year. But what was the situation in Japan against your original outlook? Whether the Japan business is now expected to grow or it is not favorable as you expect originally. That is why you have to revise downward. By the end of this fiscal year, are you able to recover the situation.

Also, the core OP, JPY50 billion to achieve and you shared the breakdown already. But in terms of treated water impact exists and also the probability of the inbound business achievement, how likely is it achievable? Including the impact of treated water, what is your viewpoint on that?

Fujiwara [A]: Thank you for that. The first Japanese situation, the local CP, excluding inbound consumer purchase is better than our original expectation, it's growing quite well.

On the other hand, inbound, as you pointed out, the impact on treated water was there, so the current situation is slightly lower than our original expectation for Q3.

Regarding our strategy to boost profit by driving sales growth in Japan, we are witnessing signs improvement with growth strongly contributing to profits. Thus, we believe that the Company has already shifted away from the business model with heavy marketing outlays without generating enough profit. That's not the case anymore.

Overall, the structural reforms and cost efficiency plans that we announced today will be implemented over the course of next year. Of course, we should not be complacent and will take further actions to reduce overall costs going forward. Otherwise, the profit generated from higher sales will not be reflected on gross profit.

That is why we have the target of profit boosting and cost efficiency plans of JPY 25 billion and gross profit increase of JPY38 billion versus 2022 level by higher sales this time. We are undergoing preparations and implementation of the plan, already making a positive impact to a certain extent this year. We will complete all actions by the end of 2024 to achieve full benefit realization in 2025.

Kuwahara [Q]: In that case, while some losses in the Japan business continued to remain in Q3, you believe that things will turn around in Q4, returning to profitability by the end of the year. This will be the baseline or starting point, is my understanding correct? Also, the other question is when the profit boosting of JPY25 billion would be realized. I believe most of that is likely to be achieved in 2025, but my question is that how it will be realized? As you mentioned that the structural reform is already yielding some results this year, then maybe one third or one fourth of the full benefit will be generated in 2024, would that be correct?

Fujiwara [A]: As for the landing point this year, yes, we will return to profitability by the end of the year. So that will be the starting point towards achieving JPY50 billion in 2025. For the question, the JPY25 billion of the cost reduction efforts and how it will be realized, internally, we are making the simulations. Partially, that will be realized in 2024 onwards. But of course, that means that we will generate better than this year's profits.

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But as a part of the structural reforms, we expect additional one-off costs arising from the implementation. For Japan and part of China businesses, we are trying to accelerate the structural reforms and that would require another JPY20 billion or more going forward.

Kuwahara [M]: Understood. Thank you very much.

Hirofuji [M]: Now then, the next question will be taken from Mitsubishi UFJ Morgan Stanley Securities firm, Sato-san.

Sato [Q]: Thank you. I would like to ask a question about the Travel Retail.

In Travel Retail, this time South Korea, I believe the performance was in line with the macroeconomic conditions in the region. But Hainan Island declined by a low teen percentage in Q3, so the impact was limited for your company compared to other global competitors. Because the damage has been small, there is a concern that the tough situation may persist for a long time. Other global competitors saw a drop of about 30% on average but your company has managed to limit the decline to a low teen percentage despite an ongoing inventory adjustments and unfavorable impact of the treated water issue. Is there any reason behind that?

In Q1, if we only look at the trends in regular travelers there has been a fourfold increase in the number of tourists compared to the bottom including South Korea, but other competitors are still seeing a 30% drop. Also, looking at the current import data from Hainan Island, I believe that there is a risk that it will not return to growth until the next summer. How do you measure visibility that this negative trend will end by Q1 next year? Is there any definite reason that makes Shiseido different from other competitors?

Yokota [A]: The low teen percentage decline in Q3 in Hainan Island was sell-out. This is not a case for sell-in which declined quite sharply.

Sato [Q]: What was the percentage of decline for sell-in?

Yokota [A]: Minus high 60%.

Sato [Q]: That is reflecting the macroeconomic conditions in the region then. Okay, I understand that. So do you think that trend will likely continue into Q1 with a growth rate of around minus 60%, would that be correct?

Yokota [A]: Regarding the negative growth rate, of course, we have to look into more details. But this year, as we've been saying since the beginning of this year, due to the lockdown impact last year, the decline was reflected on sell-in in advance. For this year, we already planned to reduce inventory, but the sell-in and sell-out gap was initially assumed to be around 30% at the start of the year. But due to the tightened regulation since May, the pace of sell-out decelerated sharply. Therefore, we had to reduce sell-in as well so that the inventory level will be adjusted. As a result, we expect that the negative impact on inventory will be mostly eliminated in Q1. However, one thing to note here is that Hainan Island Travel Retail is now recovering steadily. As Mr. Fujiwara also explained earlier, one thing we need to be cautious and go into further detail is the decline in purchases with the changes in Chinese consumer behavior. This is something that we need to monitor closely going forward.

Sato [Q]: Okay. I assume the downward revision of core operating profit from JPY60 billion to JPY35 billion this time mostly comes from the deceleration in Travel Retail. What is the size of impact by Travel Retail in total?

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Yokota [A]: The treated water impact is about JPY20 billion and also Chinese market slowdown with an impact of a shift in purchase behavior is estimated to be about JPY10 billion in total and another JPY10 billion from tightening regulations and inventory adjustments. Altogether, about JPY40 billion. But that will be offset by the strong performance in other regions and cost savings as well as reduced marketing investments, which works to be JPY75 billion, so then we have JPY35 billion.

The major impact comes from September and also in Q4. Currently, we are observing the initial trends of Double Eleven, and we see that the market itself is decelerating with a further decline in Japanese brands. It's still a bit early as can't predict the results of Double Eleven just yet, but that's the situation as we see it now.

Sato [M]: At the time of the anti-Japan demonstration, Shiseido recovered quickly, so I hope that we will see it again. Thank you.

Hirofuji [M]: Thank you very much. Next question, Morgan Stanley MUFG Securities, Miyake-san, please.

Miyake [Q]: Hello, Miyake speaking of Morgan Stanley. I would like to talk about the China business. At the earnings briefing in the end of August, I believe that you mentioned that it was difficult to measure the impact of the treated water release as it was still at the early stages, although the impact seemed limited in off-line while affecting online with the suspension of KOLs live-streaming. Based on the data provided this time however, it appears that the figures are declining into the negative territory even in offline, is that correct? I would like to know what happened in the period between September and October. For instance, should I understand that the decline in revenue in e-commerce was not only due to the suspension of KOL or if there are other factors. Also, besides distribution through KOL, I would like you to explain about the current landscape of e-commerce.

Also, you mentioned that you have reduced marketing outlays in China. While that is quite understandable considering the sharp decline in sales, at the same time, however, I recall that you also mentioned that the Company would have to accelerate investments in order to keep up with your competitors.

The KOL live-streaming is now suspended and I hear that other players are trying to take advantage to increase their market share in China. Given the situation, I would like to know what kind of changes are taking place in the China Business over the past two months? How are you going to address the situation? What is your future plan as well?

Fujiwara [A]: For the question regarding the situation between September to October, we had the first treated water release in the late August putting retailers and KOLs in a difficult situation to promote our products. That was the initial impact.

At the same time, we have been monitoring carefully about consumer sentiment and how they feel about our products as well, but the situation has calmed down earlier than we initially expected. That was positive but we continued to face difficulties in receiving enough support for KOL or large-scale promotions throughout September. As a result, our marketing spending went down. So had been unable to rollout promotional activities but the consumer response toward the second treated water release was quite calm, not leading to any big internet controversies.

Then all the consumers were very silent, I would say. Now we are running the Double 11 promotion. Then regardless of the treated water release, especially the overall Double 11 promotion and its trend is much lower than our original expectation. That is the situation that we are in right now.

Then on top of that, our brands are, of course, Japanese brand, so that is affected negatively by the treated water release as well. We consider the treated water issue will be only temporary. As we discussed earlier, there have been boycott movements against various Japanese products in China, but these have always been

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resolved as temporary issues. Therefore, we believe the impact of treated water issue will be receding in Q1. Next, the decline in consumption was something we had anticipated, as we believed that we would not see such strong growth in the future. However, looking at the situation of Double 11 this year, it feels like it slowed down a bit earlier than we expected. Therefore, I believe we need to accelerate our structural reforms and take necessary actions next year.

However, this does not mean that we entirely lose demand from 1.4 billion people. What I'm seeing now is that there are areas of growth and declines intermingled in various spots in the market, and I believe this is resulting in the overall decline we are witnessing right now. What is most important for us is to clearly identify areas of growth and we are seeing that our high-prestige brands are growing significantly. In terms of products, items with proven functionality and efficacy as well as those that seem authentic, are selling well. Specifically, creams, for example, are performing quite well.

Consumers in younger generations have been impacted by the current economic situations, but those at age 35 years or older are not affected by such changes in the economy. Also, in terms of the cities, we expect growth in cities rated tier-3 or lower. So, we carefully identify where there are opportunities for growth from various angles and rebuild our brand portfolio. With this strategy, we aim to achieve solid and sustainable growth going forward.

Miyake [Q]: In that case, the investment has not been reduced entirely, but you are trying to concentrate your spending in some areas and using it as planned. During the boycott movement in 2012, you significantly reduced your promotions overall, leading to the relative decline in your market share. I believe you had to spend a considerable amount of money to recover from the situation. However, since sentiment has been recovering before such a situation could occur again, and you are able to carry out the promotions you want to do without any disruptions. Is that how you see it?

Fujiwara [A]: Yes, we briefly experienced a situation in September where situation gets worse by promotion. However, it has been settling down, so we are starting promotions now. Meanwhile, we also have some data indicating that the customer boycott is not specifically against Japanese products. Therefore, we would like to make enough investments in our brands going forward.

Miyake [Q]: Is this to say that in order to secure the profits in China incorporated in the medium-term plan, you are considering implementation of structural reforms in China as well, as there is a risk of falling short of the top-line target incorporated in the plan?

Fujiwara [A]: Yes, your understanding is correct.

Miyake [M]: Thank you very much.

Hirofuji [M]: Next question is from SMBC Nikko Securities, Mr. Yamanaka.

Yamanaka [Q]: Yamanaka from SMBC Nikko Securities. Earlier, in the first question, you mentioned that the JPY25 billion profit improvement for Japan and JPY20 billion for structural reforms are incorporated in the plan. Could you provide more detailed breakdown?

In terms of the timing, the cost will be recognized in FY2024, is that correct? Furthermore, as this involves a reform that will result in a substantial cash outflow, should we expect that a significant portion will be allocated to optimizing human resources, or will there be considerable amounts of disposal losses for production optimization and brand reorganization, as the recent case with the Osaka factory? I would appreciate any additional information you could provide on this matter as much as possible.

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Fujiwara [A]: This number, JPY20 billion is our current assumption of the reform cost. Going forward, we need to look into a further breakdown to attain an accuracy. But then if 2024 will be the year in which we strive to complete the structural reforms, so the corresponding costs will be incurred.

Therefore, we aim to complete all actions and reforms by the end of FY2024 to ensure that we actualize full benefit in 2025. While additional costs will be incurred in 2024, we are unable to provide any detailed breakdown today.

Yamanaka [Q]: I understand. Thank you very much.

Hirofuji [M]: Next, UBS Securities. Kawamoto-san, please.

Kawamoto [M]: Kawamoto speaking from UBS. In this revision, the downward revision until Q3 and also the outlook for Q4, how much have you incorporated this JPY25 billion breakdown of Q3 and also Q4 outlook?

Then why the profit reduction is quite large compared to the reduction of the sales? Are there any other elements? Originally, 9% in 2024 and 12% in 2025 was your original margin target, but what is your perspective?

In the structural reform, personnel and organizational productivity improvement, I think you would like to implement all those structural reform by the end of 2024, so can you please elaborate on that?

Yokota [A]: Your first question, is that H1 versus H2, right? H1, our core OP was JPY10 billion better than the initial plan, then JPY35 billion less in H2. As a result, full-year, JPY25 billion minus. That is a full-year basis.

Fujiwara [A]: In terms of the medium-term plan targets, what we are seeing now is that there are some temporary impacts and also the structural impact. There are some differences, so we need to identify temporary impact and also the structural impact.

Especially, the China business for the structural element, we take actions at the early stage so that in 2024, we would like to undertake such a structural reform and 2025 will be the year that we will have further growth.

In terms of the organization and productivity things, allow me not to answer to your question.

Kawamoto [Q]: For H2, you said that that's minus JPY35 billion, so what was the breakdown of Q3 and Q4?

Yokota [A]: For that, there were some phasings of the expenses. It's too complicated. I appreciate you've taken not the quarter basis, but the six-month basis.

Kawamoto [Q]: Understood. But Q4, if I take a look at your slide page 31, Travel Retail or China business would go down. I think that will be the bottom. Is it the right understanding? Because the figure in Q4 is very low.

Yokota [A]: Well, it's not reaching the bottom, but we are seeing the very possible outlook. Based on the possible outlook, we showed this figure.

Kawamoto [M]: Understood, thank you.

Hirofuji [M]: Next I would like to invite Hirozumi-san from Daiwa Securities to ask questions.

Hirozumi [Q]: In terms of the probability of achieving your targets provided on Page 16, 17, and 18, is it okay to understand that they are achievable based on the breakdown of JPY 25 billion on Page 18? Gross profit increase may be garnered from higher sales?

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My main concern is about the JPY38 billion gross profit increase. What is the visibility of that target? For example, how much are you expecting from sales to meet this target, and ultimately, how confident are you in achieving 50 billion yen in FY2025, especially in terms of the likelihood of achieving 38 billion yen. Could you please explain what are your expectations are?

Also in 2025, target of JPY50 billion, how confident are you to achieve this target?

Fujiwara [A]: First of all, about the profitability improvement plans JPY25 billion, this is the buildup of all the relevant elements. This is something that's manageable with our own will.

When it comes to COGS, as you can see here, it is not simply about the product mix, but SKU reduction which gives us the more accurate picture of the JPY 5 billion target.

Next, in terms of the sales, we first divide into local and inbound as you can see on Page 17. For local in the upper box, we expect to achieve double-digit growth this year, but from 2023 and onwards, we expect local to grow at a low single-digit percentage.

The reason for this is that while we focus on strong brands, we plan to optimize remaining Japan exclusive brands as we anticipate a revenue decline with a low single-digit growth for local overall on a net basis.

As for inbound, at this stage, we have priced in recovery in a mid-20% range by 2025 compared to 2019. Therefore, we are not simply building up a high top-line, but rather, for the local, we are planning growth while at the same time, expecting a decline in sales for those that we do not intend to accelerate growth.

Hirozumi [Q]: This may sound a bit tough but if sales are disrupted, what other factors that would you expect which drive revenue down in addition to your assumption?

Fujiwara [A]: As 2023 is coming to an end and we have new product launches, forecasts for 2024 and 2025 in the scope which makes it less likely to expect disruption in sales. We are confident with our new product launches in 2024 and 2025.

The only factor may be our assumption on the inbound and the other thing is the structural reforms incorporating the reduction in the revenue, but the reduction in revenue may happen more widely or more significantly than we currently assume.

Of course, we need to keep a close eye on the transition and when you compare the decline in the revenue at this point and also the future growth of the business, we must go through the structural reform. With some sacrifice with the structural reform, that is a priority for us to have a better future.

Hirozumi [M]: Understood, thank you very much.

Hirofuji [M]: Next question is from Mitsubishi UFJ Trust and Banking Corporation, Hyogo-san.

Hyogo [M]: Hello, Hyogo from Mitsubishi UFJ Trust. My question is about earlier, you explained about Japanese market so I understand the structure now, but the current issue you are facing is not from Japan but it's occurring globally and then you have to cope with such challenges. On a consolidated basis, you have to manage your company and the current macroeconomic outlook was deviated from your expectation, then you have to undertake some structural reforms at the early stage, especially for the global businesses. If you have any thoughts, could you please share with us?

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Because if the top-line target cannot be achieved and the effect of cost reduction will be reflected 2025, that means 2024 will be quite tough in my view. That said, what is this sense of urgency in the context of such landscape in 2024? What is your perspective on that?

Fujiwara [A]: The global business, I think the same principle will be applied because of the Japanese structural reform. What is the issue is that the sales will not be generating good enough profits. Then the top-line is increased, but still, we cannot achieve good enough margin because of the big cost structure.

Globally, we are also undertaking the structural reform in China. Certain level of the profit is generated under the current structure because we already undertook the structural reform. But going forward, we need to have more flexibility and secure our profitability under the Chinese structure. That is what we need to do. Therefore, we would like to implement another round of the structural reform.

After the business divestiture, we are seeing good results in Americas and EMEA businesses. These would reinforce and then also accelerate the Company profitability. That is a really good cycle and that will lead to the sustainable growth of our business.

Hyogo [Q]: The structural reform, you are focusing on the Japan business to improve profitability of Japan. But this time, consolidated basis, you have to recognize the downward revision globally. If the Company structure is not leading to the profit generation, then you need to undertake further structural reform? I'm sure you do have many initiatives that you can take going forward, if necessary. Is my understanding correct?

Fujiwara [A]: Indeed, if there are any further reforms necessary, yes, we need to do that and what happened in China, that negative impact was not really compensated by other businesses. That was a problem. Because of that, the huge market potential in Japan that has to be generating and lead the global business. That will be the overall company's reform. Overall, we would like to take a good balance globally.

Hyogo [Q]: Yes, I expect the impact will be realized at the early stage. And my request is that, as Kawamoto said earlier that your net sales go down and then the profit would be also further down. That kind of explanation or stories must be fully explained. Otherwise, we find some of the skepticism in the market, so I just want you to explain thoroughly about that.

Hirofuji [M]: Thank you. Now it is almost time to close the briefing. Next will be the last question. Ohana-san from Nomura Securities, please.

Ohana [Q]: About the revision of the full-year plan, I would like to make a confirmation. When we look at Q4, Japan will see the increase of the sales by 24%. In China, embedded is down by 20% and Travel Retail is down in profit by about 50% in Q4. In Japan, up to Q3, it is the growth of high single digit%. How will it recover to this level in Q4?

Also, for China and Travel Retail, there's been explanation. Q4 is the bottom for China and Travel Retail?

Also, regarding the core operating profit, am I correct to understand that there is no one-off accounting booking.

Yokota [A]: For Japan, the local revenue is, as explained earlier, is going quite well. Every quarter, we are seeing growth. Also, in Q4, there will be large-scale innovation being planned. This will accelerate the growth further. The local consumer purchase is likely to grow. We will push it to grow to the high 10% level.

For inbound, to a certain extent from October onwards, there will be the Chinese Golden Week, bringing more travelers and yes, we did see a dip in September, but it's recovering into October. If it continues into November and December, inbound is likely to grow into Q4 as well.

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This is the background of our assumption of the growth in Japan market in Q4.

Regarding the Travel Retail, Q4 is a significant negative due to two elements: the South Korea and Hainan Island have impact of the treated water release and also the regulation on the inventory causing the inventory adjustment is being prolonged.

For South Korea, the inventory level will be about two months by the end of this year. For Hainan Island, as of end of this year, the inventory would be around four months, but the Hainan Island inventory adjustment will continue until Q1 next year. That's our assumption.

Therefore, the heaviest negative aspect will be Q4 Travel Retail as far as we see at the moment.

Ohana [Q]: Thank you very much. What about the core operating profit? There's the reduction of the sales and also the cost reduction being calculated, so there's no one-off impact then?

Fujiwara [A]: As I mentioned, the impact is JPY20 billion from the treated water release, JPY10 billion from Chinese market slowdown with a shift in purchase behavior, JPY10 billion from tightening regulations and inventory adjustments. Also, there's a top-up from other regions and plus cost savings and marketing cost reduction, so that's JPY35 billion altogether.

The major one-off costs such as the structural reform, it will not be included in the core operating profit, will be included as non-recurring items.

Q3, we explained about the impairment for the integration of the two factories in Osaka. This is also booked under non-recurring items and also JPY10 billion operating income from the sale of the building is also outside of the core operating income.

Ohana [M]: Thank you, I understand now.

Hirofuji [M]: Thank you very much. Now, with this, we would like to finish Q&A session.

With this, we would like to finish the briefing for the Q3 results. We will have a questionnaire survey for you from the IR division, so please fill in the questionnaire and send it back to us for future improvement of the briefing session.

Thank you very much once again for joining us out of your very busy schedule.

[END]

Document Notes

1. Portions of the document where the audio is unclear are marked with [Inaudible].
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