



Shiseido Company, Limited

Nomura Investment Forum 2023

November 30, 2023

Event Summary

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|-----------------------------|------------------------------|---|
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| [Number of Speakers] | Masahiko Uotani | Representative Director, Chairman and CEO |

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Presentation

Uotani*: It is my pleasure to have an opportunity to talk to you about our commitment to regain growth at Shiseido. For those who are not familiar with Shiseido and myself, I'm going to cover quickly to introduce the Company and myself, followed by the challenges that we are facing today, and more importantly, what are the strategies we are going to take to turn around and get to the growth again.

Evolution of Shiseido

Founded **1872**

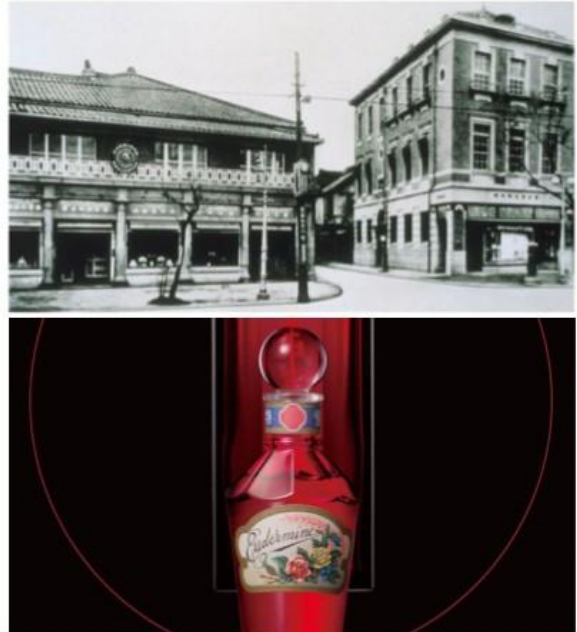
1 in Japan

3 in the prestige beauty industry

Distributed in **120** countries/regions

39,000 employees

100 nationalities



3

Shiseido was founded almost 151 years ago in 1872 as a Western-type of pharmacy in Ginza, Tokyo. In the domestic beauty industry, we have been number one in leading the development of Japanese aesthetics. In the prestige beauty market globally, we are currently number three. And we operate in 120 countries with 39,000 employees having 100 different nationalities.

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True Calling



4

About myself. I spent the majority of my career at Coca-Cola, almost 20 years, as a president and CEO of Coke Japan. You never know what's going to happen to your life. One day, two of the external board members of Shiseido came to talk to me and offered me a job. It's not a simple marketing job. They offered me a job of CEO. I had a bit hesitation to say yes at that time, but I thought this could be a symbol of change of Japan if Shiseido appoints someone from outside, first time in its 140-year history. So, with my wife's permission, I took this offer.

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3

Driven with KAKUGO and Determination

To make Shiseido a truly global company
that continues shining for the next 100 years

覚悟

KAKUGO



5

I had a strong determination in the beginning to make Shiseido a true global company. A true global company means, in my definition, is not only just the percentage of sales outside of Japan. Like, currently, we are like 75%. But it's not the case. I thought that true global company embraces the greater culture of the diversity of our people, talented people around the world, joining Shiseido to work together. So a strong determination which I translate into Japanese KAKUGO, very strong promise commitment.

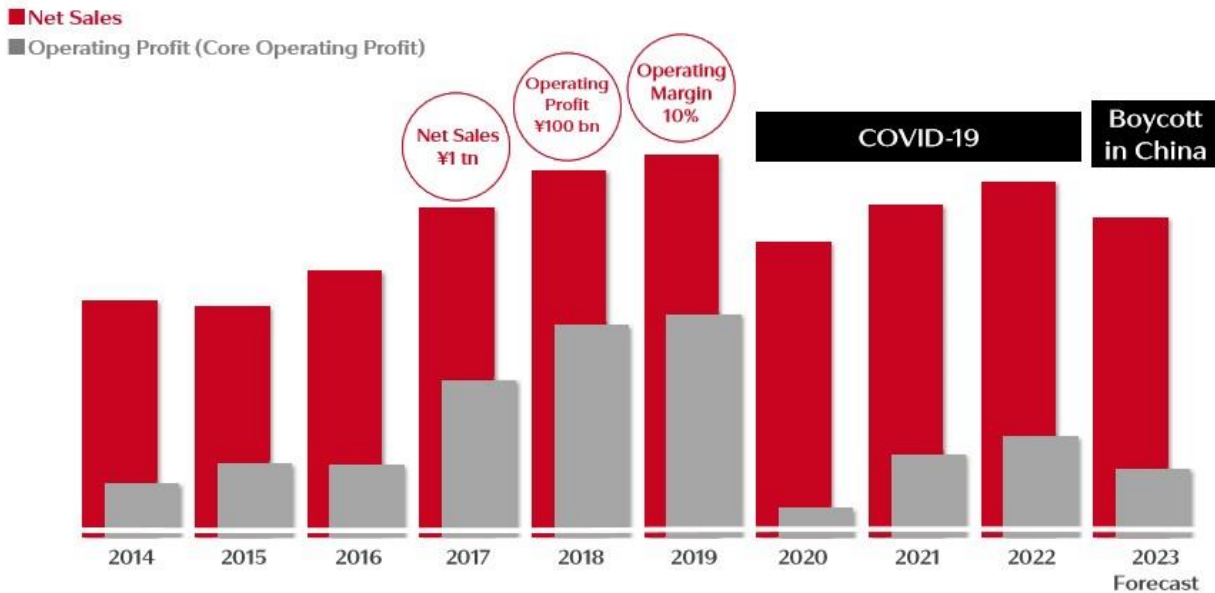
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Where We Are in Our Journey



6

Prior to joining Shiseido in 2014, Shiseido, unfortunately, was very much struggling in the vicious cycle, I would say, decreasing investments, decreasing sellout from the stores, and that ends up with decreasing sales. Protecting the bottom line, they have to really cut the investments as well. It was like that. So as a fresh person, without knowing the background deeply, we started really working on the growth plan, a six-year growth plan called the VISION 2020 strategic plan. It has been quite successful. We set the target of JPY1 trillion revenue and sales with a 10% margin, which we had never achieved before, but I thought we need aspirations to achieve that. Otherwise, people, employees are not coming with us. Luckily, we were able to achieve those targets, actually three years in advance for sales and two years in advance in operating profit target, and the 10% margin was achieved in 2019. Return on equity went up to 16%. We had a lot of cash to be reinvested.

Then, as you all know, something unexpected really happened suddenly in 2020. That was the COVID crisis. That hit us a lot. We always talk about the negative impact on the industries like airline industries and travel industries, but beauty industry, cosmetic industry had the similar negative impact as well because people didn't go out. Particularly in Japan, a lot of people obviously wear masks, then you don't need any makeups. So, I had to take tough decisions to restructure our company, reforms, and ended up setting unprofitable businesses, non-core businesses, and that was equivalent to almost USD2 billion sales out of USD10 billion sales kind of business. And we reduced the head count by 10,000 all around the world. With that sort of restructuring efforts, we started recovering and COVID was actually somewhat slowing down in Europe and the US. In 2022, we were going up to that kind of level and having a JPY50 billion kind of core operating profit, 50% of what we used to make.

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Current Challenges

- **Slower-than-expected recovery from COVID crisis in Japan**
- **Disrupted by China volatility**
 - Boycotting due to treated water release (despite no causal relationship!)
 - Travel Retail inventory adjustment from Daigou crackdown



Transform into Opportunities for Growth

7

We were going to keep this momentum in 2023. However, in mid-2023, actually in June, we started hearing the Japanese government decided to release the treated water from Fukushima. Then, disruption by China volatility and there was unexpectedly boycotting of our brands in China. But I would tell you, our products have nothing to do with treated seawater. We don't use that at all, of course. Consumers kind of believed with some kind of social media kind of information. We couldn't do anything. That became obviously huge problem for us this year.

Also, I shouldn't forget to talk to you about the slower than expected recovery in Japan. Japanese beauty industry today is not after the level of 2019 yet as the market. We are not there yet. Although we are growing in double digit in the sense, but we are not there yet. Because Japan market had the delay of recovery. So, this is where we are. Because of this outlook for the year, we are very sorry that we disappointed the markets and stock price actually reflected in the last three weeks.

Therefore, now I have to stand to turn around, taking this as an opportunity for us to review every aspect of our business and get us go back to growing again.

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Structural Reforms in Japan and China

➤ Japan, China

- Grow topline with strategic investments
- Reduce fixed cost base for productivity

➤ Travel Retail

- Rebuild healthy customer base; Travelers to be 70-80%

8

Particularly Japan and China. Obviously, we'll have to keep growing top line with the brand investment, which I'm going to talk a little bit more later. At the same time, due to the fixed cost, Japan when we had Chinese consumers coming into Japan, travelers, inbound was big, and we didn't have enough number of employees at the time to serve the customers who are coming. We're even having some missing opportunities, but still, we were making JPY75 billion operating profit in Japan. Now, suddenly, it went down like this, and therefore, we have to take decisions and we have to take actions to reduce our fixed cost. We have to adjust ourselves to the new realities. China as well. Because everything was growing, thanks to all the alliances with a company like Alibaba, we grew much faster than the market in China and delivering very good profit. Now, China's beauty industry and the whole economy is slowing down clearly and having some kind of political issues like that. We have to adjust ourselves again to the new realities that's going on and that will be going on in China.

Travel Retail, when we started our VISION 2020 in 2014, our Travel Retail business was peanuts. I found by going to talk to the customers around the world, I found we are missing opportunities. So we created organizations based in Singapore, hiring professional people who have been in the industry with travel retail, and we grew our business from a small USD200 million kind of business to USD1 billion in the last several years. Very profitable. But in 2019, 70-75% of our customer base were usual travelers and 20-some percentage were so-called Daigou's, business people. During COVID, that changed significantly because obviously, we didn't have travelers and very much sort of distorted or changed the skew to business people. Now, it's time for us to clean up and take it back to usual percentage, expecting usual travelers to be like 70%-80% of the total business in two years, we are going to shift our model, customer base.

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Our Strategic Priorities to Regain Growth

- Corporate mission and vision
- Brands and portfolio
- Innovation, DX and technologies
- Geography
- People and organization

9

I'd like to take you through what we are going to do to get our business back to the trend, not only just the structural reform I talked about. I'm going to start with corporate mission and purpose. Why we exist, Shiseido exist? I'd like to cover our brands and portfolio, innovations, the geographic rebalancing we'll have to make in the coming years, and the people and organizations.

I would like you to take a look at corporate mission and purpose video first.

Thank you for watching this. I hope you have captured Shiseido is not in the business of just selling beauty products, but in the business of making people happy through the power of beauty. That's why we exist.

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Skin Beauty and Wellness Company



10

Our strategic category or area, if you call, was defined when we faced the critical crisis of COVID. We used to build our business with three major beauty categories, skin care, makeup and fragrance, as all of the global companies are doing.

But facing the COVID crisis, we had to make a choice, where we are going to play. Obviously, we chose skin care as our major category because of our technology, experience, expertise that was built over 100 years. If you take a look at the skin care and if you dissect the skin care category by segment, there are so many interesting segments actually emerging, starting from science background kind of skin care products, where we are very strong, and clean category, natural, dermatology and medical. That is growing as well. As a skin care specialist, skin care company, we'd like to be everywhere of those segments.

Next to that is sun care. That is so important, and Shiseido has state-of-the-art technology for sun care. We have the number one sun care brand, ANESSA, in Japan, and globally, we are the major player of this. Then, adjacent areas, beauty devices and second skin and even makeup, is somewhat connected with skin beauty and fragrance as well. These are the adjacent areas that we're expanding. But the major strategic area for us is skin care, but I call it skin beauty and wellness. This is a bit of an Oriental thought developed in China years ago, 1,000 years ago: whatever you eat, whatever you drink, that should be good for your health. When you have a good digestion, you have a good skin condition. When you have a good quality of sleep, you have a good skin condition. So they are related, connected. Therefore, we are now expanding into inner beauty business. We have no experience over food and beverage. Therefore, we just created a strategic alliance with a company called Kagome, a juice company, and TSUMURA, which is a Chinese medicine company. We will do more with other companies.

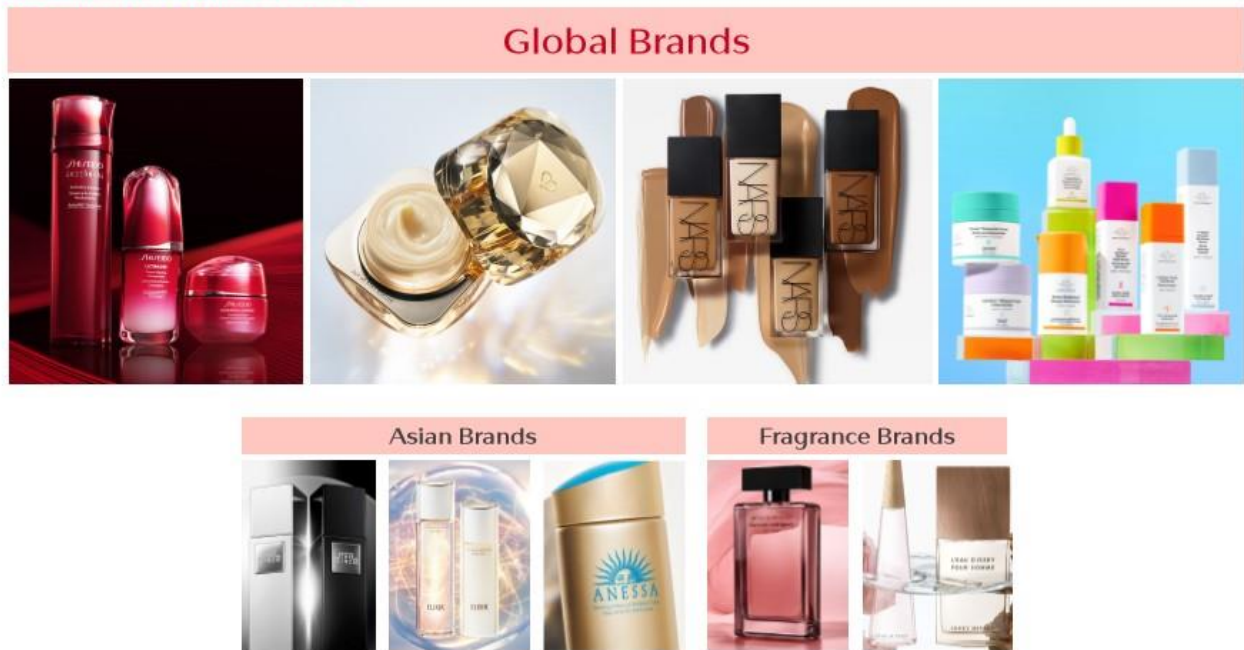
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Brands and Portfolio



11

Now, I will talk about the brands. When business is facing a challenging time, we tend to talk about cost reductions to protect the company, to protect the bottom lines. I know that's very important. That's indispensable, particularly for us right now. But I want to emphasize the importance of top line growth, especially because we enjoy 80% gross profit in this business, 80%. When you grow USD100 million of revenue, you get USD80 million of gross profit. That can cover total investments and cost. We're going to do both.

From that viewpoint, I'd like to really talk about what are the brands we are investing. Among many of the brands we have, we defined four brands as very important strategic global brands: *Shiseido*, *Clé de Peau Beauté*, *NARS*, and *Drunk Elephant*, and some of the other brands like *ELIXIR* and *ANESSA* for the Asian market and the fragrances mainly from Europe.

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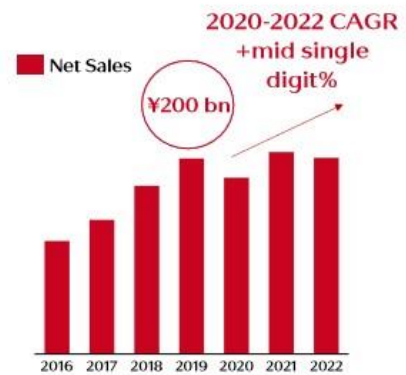
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Our flagship skincare brand

No. 2 skincare brand in major European countries



12

Shiseido brand, which is the flagship brand for us, it's the same name as the Company. So very important. It has been growing very nicely in the last several years and exceeding JPY200 billion revenue. After a COVID dip, we started growing again.

Communicating Value of Japanese Beauty to the World



13

This brand has a very important meaning. This brand is delivering the value of Japanese beauty to the world.

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Untapped Opportunities - A Man's Appeal Manifests in His Skin



14

Also, I want to really get your attention. I see quite many male people attending this meeting. I'm going to ask you if you use skin care product for yourself. Do you? Great. Okay. Well, the penetration is still low. So, I hope you're using ours. This is my opinion, untapped opportunities or white space, you can call. Therefore, we came up with a Shiseido men product lineups and campaign. It just started last week. Turning men from his wife, you can really take it off your skin and you look good. We are saying a man's appeal manifest in his skin. It's related. Right after we started this campaign, we started seeing quite many number of men actually lined up in the department stores. So, changing behaviors. This is something that we are going to do, starting from Japan, China, Asia, European and American markets soon.

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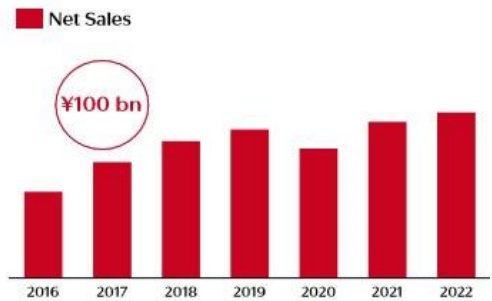
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Highly acclaimed luxury brand
Backed by cutting-edge science



15

Our important luxury brand called *Clé de Peau Beauté*, that is a very high luxury brand. At the same time, this is backed up by very advanced science. It really works to make your skin really radiant. It's been growing. Actually, 10 years ago, there was like a USD400 million kind of revenue. Now, it's over USD1 billion and growing a lot.

Clé de Peau Beauté at the Forefront of Innovation

- INFUSED WITH RETINOL**: In 2 weeks, wrinkles look reduced by 29%*
- INFUSED WITH RETINOL**: In 2 weeks, wrinkles look reduced by 29%*
- BOOSTS PLUMPNESS**: In 4 weeks, sagging of cheeks visibly improved by 14%*
- CONTOURED EYES**: 83% let deep wrinkles around the eyes are visibly reduced in 8 weeks*
- 4D-FUTURE FIRM**: 3D FIRING by stimulating tightening and tone resistance + EXTRA DIMENSION FIRING by improving surface strength
- ROOT HYBRID COMPLEX**: Botanically-derived ingredients that target overall definition
- UPLIFT TIME DEFEY GRAVITY**: In 2 weeks, facial contours are 10% firmer*
- RE-ENERGIZE EYES**: 10 Puffiness, dark circles, and fine lines look visibly reduced
- INSTANT BRIGHTENING RENEWAL**: 1 WARM Brightening Gentle Exfoliator, 2 COOL Brightening Mask
- TIME-DEFEYING BRIGHTENING**: In 12 weeks, dark spots visibly reduced by 12%*

16

As I said, this is backed by very profound science Shiseido has built over 100 years.

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Continues to inspire creativity, self-expression and limitless artistry
Celebrates diversity
Globally recognized as a bold and provocative brand



17

NARS, this is the brand we acquired in 2000 in the US, in New York. It is an artistic kind of brand. It is globally recognized as a very bold and provocative brand. It's appealing. We had some kind of obviously a decline in the beginning of COVID, but that has started growing again. Even today, this is growing double digit in China as well. I see a huge potential for this brand.

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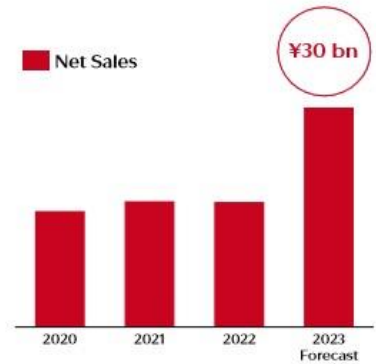
DRUNK ELEPHANT™

Acquired in 2019

Pioneer of “Clean” category

Strong digital marketing expertise

Global rollout in progress



18

Drunk Elephant. We made an acquisition back in 2019 just before COVID. Actually, it was November 2019. This brand is a so-called pioneer of clean category that is really emerging everywhere in the world. They are very strong in the digital marketing. Actually, 60% of sales is D2C.

After a kind of a slowing down during COVID, Shiseido got involved in enriching their marketing capabilities, and we started investing behind their brand-building. We expanded the distribution from Sephora to Ulta as well. And then, this year, we are enjoying the growth of 80%. It became number two skin care brand at Sephora over in the US and number one brand in Ulta.

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Significant Investment in Building Brands

3-year incremental accumulation vs. 2022
Additional ¥100 bn in 2023-25

- Scale core brands for profitability
- Build a process for monitoring brand ROI
- Rationalize non-core brands and SKUs



19

Before talking about strategic reforms and cost reductions, I will reiterate the importance of growing top line through the investments behind the stronger brands. We plan to invest this year and up to 2025, in three years, an incremental accumulation of JPY100 billion, USD650 million or so. The core brands I mentioned, when they grow because they are core brands, scale is there and the scale is still even going up, which is allowing us to enjoy better cost of goods. Even better than 80% of gross profit is expected. At the same time, we want to make sure we are rationalizing, streamlining the brands that are not working everywhere in the world. So, we're going to do both.

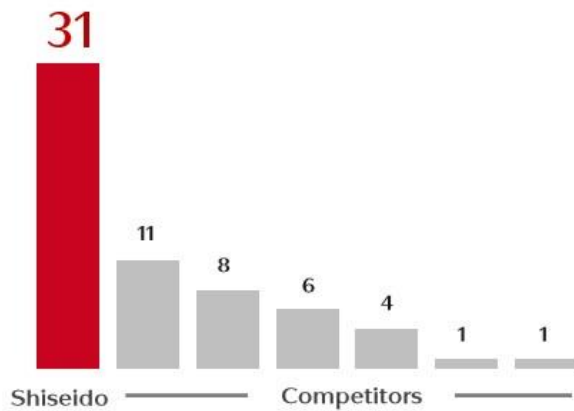
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IFSCC Awards: Testament to Superior Technology



* IFSCC: The International Federation of Societies of Cosmetic Chemists

20

Now, I want to move to innovation capabilities of Shiseido. There is an association of this industry called the IFSCC. It's regarded as the Olympics for the researchers and people in the R&D technologies. Shiseido has won 31 awards in the past. Actually, two awarded this year. The number two company has only 11. This tells you as a testament Shiseido is really leading this industry from a technology viewpoint, basic research viewpoint.

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Cutting-Edge Innovations



21

So, making use of them, we introduced a cutting-edge kind of innovations. I'm not going to touch up on all of the details, but I want to really talk about the first one. You can see it there, called LiquiForm. This is a great innovation because of sustainability attention to the brands and the products from consumers. We worked with a supplier to come up with this one. Once you buy the whole package, you don't have to buy the outer package anymore, you just keep it. You buy in a package only, which is much thinner, using much less plastics. And then, in the total cycle, you can reduce a lot of CO2. This was introduced at the beginning of this year in Japan as a kind of a test. Very successful, so we would like to launch this in other countries like China and the US, and using this technology, applying to other brands.

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Skin Diagnosis Utilizing DX

Skin Diagnosis Technology



Beauty DNA Program



22

Some of the other innovations and making use of digital technologies, particularly I want to really tell you this one. We're going to ask consumers to give us their saliva and then we make analysis of DNA. Based on that analysis, we will come up with what is the best solution of skin care and diet that makes your skin condition better. So, a holistic approach can be made based on the science of DNA analysis. We just started this in Japan.

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R&D Capability with 1,200 Researchers around the World



23

So, another this possible or building stronger R&D capabilities, actually, we decided to invest 3% of our sales in R&D every year. With that kind of investment, we are building a R&D kind of network. Our Global Innovation Center is located in Yokohama, and then all other regional R&Ds are now becoming more capable, with the total number of researchers over 1200. This is going to allow us to have a very high-level kind of basic research here and then have a more localized product development that is relevant to the consumers in the local markets. That's the kind of the next stage for us to develop innovations.

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Japan: Structural Reforms

Major cost optimization plans to reach core operating profit ¥50 bn



24

Now, having finished talking about the revenue side, I want to really get your attention to our serious efforts to reduce our cost of operations. Starting from Japan. We're going to have structural reforms in Japan to reduce the cost. While growing our gross profit by marketing and consumer sales activities, we want to really make sure to reduce our cost by JPY25 billion in two years. Through cost of goods is going to contribute JPY5 billion by having more efficiency and rationalization of SKUs. We plan to cut 1/3 of our SKUs, which are not really working in Japan. Inefficient kind of marketing expenses will be cut and organizational productivity, which means there will be realignment and headcount adjustments and reductions.

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China: Business Transformation to Align with New Reality

Growth strategy

- Market growth: from rapid to stable and moderate
- High-prestige (*Clé de Peau Beauté, The GINZA*)
- Decrease dependence on KOL promotion
- Tier 3-5 cities
- Communicate quality and efficacy

Cost optimization

- Rationalize brands and SKUs
- Reorganize for productivity

25

China, I think there is a bit of debate if China growth is going to continue or not. Having experienced such a big issue this year, we want to be very cautious for the future. We want to take a much more conservative kind of outlook for the market. The beauty industry is going to grow, but still, economically, there is a slowing down. Therefore, we see the market is going to be much more stable growth, like 3% to 4% only, no more 10%, 15% growth as we had before. That's the new reality. Having said that though, if you take a look at the segment of beauty industry in China, what we call luxury in the high-prestige segment is growing quite nicely. Actually, it's becoming almost 40% of the total beauty market. Plus, bipolarization taking place, lower price range is also growing. So mid-range is kind of shrinking. We don't play any games because we sold our personal care business before. We don't play in the lower kind of price range anymore. We don't have any business there. So, we are going to even more focus on luxury high-prestige areas with our brands called Clé de Peau Beauté and THE GINZA.

Particularly during the COVID time, the China beauty industry had a huge dependence of KOLs, having live streaming, as you all know, and we did it too. Now, reflecting the new realities, we want to really decrease significantly that kind of dependence and we want to really get the business having more right sort of promotions, not depending on huge promotional activities and pricing activities. We want to build brands, particularly communicating our quality and efficacy, given Chinese consumers somewhat misunderstand because of this issue we are facing right now. We want to proactively communicate high-quality products. At the same time, now is the time because China business has been growing. Obviously, we have been increasing our headcount. We have been increasing our spending. We were opening up new offices. We were still able to deliver good profit. Now, given the new realities, we will really make adjustment. That's the time we have to take it back and see what should be the right model for us in terms of the size of organizations. First, rationalize brands and SKUs. Yes, non-profitable and non-core brands will be rationalized and streamlined, at the same time, reorganize for productivity. I'm saying, in a nice way, in reality, we will really adjust significantly our organizations and headcounts, will do that.

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Now is the Time to Implement

Transformation in Japan and China



Expected Global Cost Savings

¥40 bn+ (2025 vs 2022)

26

Now, we are almost at the end of 2023. We have no time to waste. The time is now to implement. Actually, we had the Board of Directors meeting yesterday. That endorsed everything I'm talking about today. So, we'll get to implement now. Through the transformational activities I am mentioning, we expect to save our costs, especially in the fixed cost areas of JPY40 billion in the next two years against 2022.

I have to ask everybody to do even harder work to take a look at every aspect of our cost and how can we increase our productivity and efficiencies. We're going to be monitoring almost every week what's going on to each area, to each region, to each area of responsibility of our executive officers. Actually, when we had the VISION 2020, by doing the same kind of approach, we were able to save JPY69 billion at the time using the FX rate at the time, it was USD600 million that was saved. There are so many areas we can be more efficient. We are confident we can do this.

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Americas

- Successfully improved profitability
- Grow core global brands through enriched marketing and local brands development
- Aggressively seek for M&A opportunities



27

Very quickly, I want to just touch upon each region, America, as I said, when we face the COVID crisis, we had to take a very significant transformational kind of actions. The brands that were not working, bareMinerals, famous one, which was losing a lot of money. We had to ask quite many people to go and reduce headcounts in the US, and it became profitable now. This region was not profitable at all, but now it's profitable. While growing core brands, as I mentioned, in marketing, we were able to hire very talented marketing people now from the competitors, and I'm confident that we can do a much better job in growing our core brands. At the same time, Americas, the US is the place we are able to find great candidates for acquisitions. I'm personally leading this project, working on some multiple projects right now.

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EMEA

- Successfully improved profitability
- Grow core global brands through enriched marketing and local brands development
- Enforce profitability in Fragrance
- Maximize opportunities in the Middle East



28

Europe, again, used to have a big fragrance business, and that was not profitable. So, we had to make a very tough decision to terminate our franchise with Dolce & Gabbana. We did it. Now, Europe became profitable. Fragrance became very profitable with some other remaining brands. Brands should be really growing, and in particular, as Shiseido, as I said, is now number two in the major European markets. So, we still see a lot of potential there. Fragrance, remaining fragrance, obviously, it became smaller, but very profitable. So that's going to become a fuel for the growth of other brands.

Middle East, in 2018, Shiseido established a 100% subsidiary in Dubai called the Shiseido Middle East. Then, that company had to work to clean up legacy contracts in each country, which we had many years ago. Now, we are cleaning up and having a joint venture, just established in Saudi Arabia. With that, we are going to put more brands in the Middle East market and driving the growth through stronger marketing investment.

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25

Asia Pacific

- Accelerate growth in emerging prestige beauty market
- Drive localized marketing for diverse consumers
- NARS off to a good start in India



NARS counter in India

29

Asia Pacific, obviously, as you know, it is a diverse market and emerging markets like Vietnam is growing. Thailand is becoming much more significant and Indonesia. So, we have a footprint in all of those places, growing our prestige brands. After a lot of the kind of study, we very cautiously entered the Indian market this year with NARS in a multiple kind of setting points. Initially, in the last couple of months, very successful. It's going to take time in India, but we are very confident that we can be growing together with the market for the next some years.

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People Drive Value Creation: PEOPLE FIRST



30

Now, I'm going to move to people and organization. This is my absolute principle: PEOPLE FIRST. What I mean is that people drive value creation, innovations, and our customers are going to really enjoy their innovation. As a result, we're going to be growing our sales and profit. As a result, we can be sharing that with our investor shareholders. We're going to start it with people. That's what I'm calling PEOPLE FIRST.

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Become the Front Runner for DE&I

| Female | | Non-Japanese | |
|----------------------------------|-----|--|-----|
| Board* ¹ | 40% | Global Leadership Team* ¹ | 35% |
| Executive Officers* ¹ | 40% | | |
| Leaders globally* ² | 58% | | |
| Leaders in Japan* ³ | 38% | | |
| | | Mid-Career Hires | |
| | | In Managerial Positions in Japan* ³ | 30% |



*¹ As of April 1, 2023
 *² As of January 1, 2023 for Japan; as of December 31, 2022 for overseas
 *³ As of January 1, 2023

31

People is embracing the diversity of people. Currently, in terms of gender diversity, our board, 40% are women; our executive officers, 40% are women. Globally, the leaders are 50% and in Japan 38%. We're going to increase that from 38% to 50% sooner or later. Also, it's not on the gender, but nationality. To become a global company, I say this is so important. In our global leadership team, 35% are non-Japanese people, having a lot of different backgrounds. And middle-career hires in Japan is 30%.

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Global Leadership Team



32

This is my global leadership team, where you have, let's say, a diverse background of people, who used to work for other global companies, who has been in Shiseido many years from the beginning. It is a good mixture.

30% Club Japan

TOPIX President's Committee Member List: 34 Companies



33

At the same time, we want to become a showcase for the Japanese companies and the Japanese society in terms of diversity and inclusion. Therefore, I'm now chairing the 30% Club Japan chapter and invited 34 major Japanese companies right there. Actually, Nomura is here, too. Mr. Okuda, CEO, is always attending this session.

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29

Shiseido Future University: Develop Global Leaders



34

To continue to develop global leaders and human capital, we decided to make a significant investment to build Shiseido Future University. Actually, that's the head office building located in Ginza. That's where our company started. We changed this building from the office to Shiseido Future University facility completely. Actually, today is the opening of this facility, November 30th. It's not only simply just to kind of business school, teaching how to run the business, how to make analysis. I want our leaders to experience, to enrich the Japanese culture and classic music from Europe. At the same time, there's a very serious tough sort of discussions and debates. There's also a bit of a small display. You can see it. On every floor, we're showing all heritage products from 150 years ago for them to learn the spirit of the founders and come up with future strategic visions.

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We are All in Together



35

Lastly, I just want to tell you, I have been working on a succession plan for the last four years. And after three years of selection process by the Board and myself, we made a decision and announced one year ago, the guy next to me called Fujiwara-san is succeeding me. He is now President and COO, and I became Chairman and CEO this year. I'm going to have one more year to finish my tenure, and then, he's going to succeed. Therefore, all of the initiatives I have talked about today to regain growth, tackling all the issues we are facing, reducing the cost of operations and growing our brands profitably, I'm doing that with him. Together, we are all in.

Thank you very much.

[END]

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