Shiseido Company, Limited

FY2023 Financial Results (January-December)

February 9, 2024

Event Summary

[Company Name]	Shiseido Company, Limited	
[Company ID]	4911-QCODE	
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[Event Type]	Earnings Announcement	
[Event Name]	FY2023 Financial Results (January-December)	
[Fiscal Period]	FY2023 Annual	
[Date]	February 9, 2024	
[Time]	17:30 – 19:02 (Total: 92 minutes, Presentation: 39 minutes, Q&A: 53 minutes)	
[Venue]	Webcast	
[Number of Speakers]	3	
	Kentaro Fujiwara	Representative Director, President and COO
	Takayuki Yokota	Director, CFO
	Ayako Hirofuji	Executive Officer Vice President, IR Department

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 FY2023 results and important business agenda.

After that, we would like to have a Q&A session. We plan to finish the whole program at 19:00, 7:00 PM.

This briefing session will be available on our website after its ending. Now I would like to have Mr. Yokota to explain FY2023 results and full-year outlook for 2024.

Yokota: In the previous Q3 business results presentation on November 10, we have explained about the downward revision of core operating profit to JPY35 billion from the initial plan of JPY60 billion. With this big revision, we, as management, understand the big impact it had to the stock price and the trust of the stakeholders. We take this seriously, and as a company, are committed to turn around the business quickly and execute with solid action. In results, the core operating profit for FY2023 performed above the forecast of JPY35 billion to JPY39.8 billion.

As we exceeded the forecast, it is also a continuous challenge for us to improve on the accuracy of our forecast and the use of FOCUS. On the other hand, for 2023, we were able to add some profit as a result of business management agility, although the business environment continued to drastically change in China and Travel Retail. Even though the profit amount of JPY35 billion is far from satisfactory, we feel that we were able to achieve some fruit as a result of pursuing profit expansion.

2023 Core OP ¥39.8 bn: Worst is Over, Ready to Recover in 2024

Japan	● Local Consumer Purchases: Accelerated growth every quarter ● Market share: Improved every quarter with full-year market share gain ● Full-year profitability: Turned black with sharp profit increase in Q4 (+¥9.2 bn)
China	● Treated water impact steadily receding. Positive Consumer Purchases in Dec.: Growth in prestige, flattish overall ● Gained market share in the makeup category with *NARS* and *Clé de Peau Beauté* driven by strategic marketing investments ● Achieved strong growth in focus areas
Travel Retail	● Destocking on track <Inventory adjustment> ・South Korea : Done at the end of 2023 ・Hainan Island: Will be done by the end of Q1 2024
Americas, EMEA, Asia Pacific	● Strong double-digit growth*: Primarily driven by *NARS, Drunk Elephant, narciso rodriguez*
Global	● Agile cost management adapting to market conditions

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

3

This slide summarizes the key points that are updated from the last business results presentation.

Japan local captured solid recovery. Consumer purchases are accelerating its growth every quarter. Although the market is driven by low price range, the Company's focus of mid- to high price range grew strongly and expanded the market share for the full year.

The share declined in Q1, but along with the powerful innovative product launches in Q2 and onwards that turn to positive growth in share every quarter. From a profitability perspective, we achieved positive numbers for the full year, achieving a strong growth of positive 17%, a drastic profit increase of JPY9.2 billion.

Next, China is steadily moving forward to a recovery trend since the treated water impact. For Double 11, we were significantly hit with the decline more than the market as expected. However, in December, the prestige category market had positive growth and we are starting to see signs of recovery as we landed flattish to the previous year on an overall business basis. With the strategic allocation of marketing investments, in the small makeup category, with NARS and Clé de Peau Beauté, which has less negative impact compared to lotion and emulsion, we were able to expand market share. So, even in such an environment, we are realizing strong growth in focused areas.

Next is Travel Retail. Inventory adjustment is on solid track with South Korea completed at the end of 2023. Hainan Island is expected to be completed by end of Q1, as previously explained.

Next is the Americas, EMEA and Asia Pacific. In these brands such as NARS, Drunk Elephant, and Narciso Rodriguez, the localized value development showed solid results, realizing a double-digit growth for the full year in all three regions. Globally, we pursued thorough cost management more than ever, adapting to the market situation whilst continuing to invest in growth areas.

2023 (January–December): Executive Summary

(Billion yen)	2022	% of Net Sales	2023	% of Net Sales	YoY Change	YoY Change %	YoY FX-Neutral %	YoY LfL[*2] %
Net Sales	1,067.4	100%	973.0	100%	−94.3	−8.8%	−12.2%	+1.8%
Core Operating Profit	51.3	4.8%	39.8	4.1%	−11.5	−22.4%		
Non-recurring items	−4.8	−0.4%	−11.7	−1.2%	−6.9	-		
Operating Profit	46.6	4.4%	28.1	2.9%	−18.4	−39.6%		
Profit Before Tax	50.4	4.7%	31.0	3.2%	−19.4	−38.5%		
Income Tax Expense	12.8	1.2%	6.9	0.7%	−6.0	−46.6%		
Profit Attributable to Owners of Parent	34.2	3.2%	21.7	2.2%	−12.5	−36.4%		
EBITDA[*1]	102.4	9.6%	91.8	9.4%	−10.6	−10.3%		

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

Net Sales: Japan local continued steady growth in mid-to-high price range, inbound steadily recovered due to increase in the number of tourists. Americas, EMEA and APAC remained strong

Weakness in China and Travel Retail due to consumer pullback on Japanese products by the treated water release, etc.

Core Operating Profit: Despite strong growth delivered in 1H, the full-year core OP dropped YoY on lower sales in 2H

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

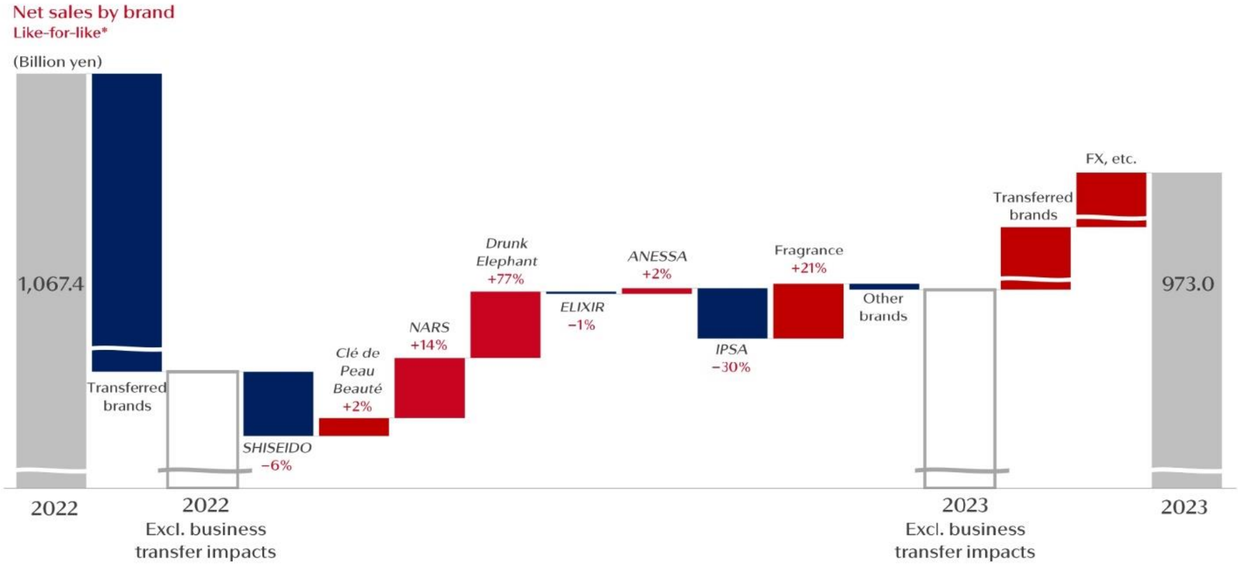
EBITDA: EBITDA margin 9.4%

4

Next is page four, the Executive Summary.

Core operating profit was JPY39.8 billion, a JPY11.5 billion-minus. The H1 captured significant profit growth, but the decline in gross margin from lower sales in H2 resulted in the full-year core OP to decline YoY. Operating profit was JPY28.1 billion, JPY18.4 billion-minus. The profit attributable to owners of parent is JPY21.7 billion, minus JPY12.5 billion YoY. EBITDA was JPY91.8 billion, a decline by JPY10.6 billion YoY. EBITDA margin was 9.4%.

Strong Growth Delivered by *NARS*, *Drunk Elephant*, and Fragrance, while Weakening Sales in China and Travel Retail across the Brands



* YoY change (%) for each brand is calculated based on foreign exchange rate assumptions at the beginning of the fiscal year and excludes exchange rate differences and other factors.

5

Next is page five, Performance by Brand.

The slowdown of China and Travel Retail in H2 impacted the overall business. Shiseido and Elixir had double-digit growth in Japan, but resulted in negative growth globally. As for Clé de Peau Beauté, even though the sales ratio is high in China and Travel Retail, because of the strong presence of a prestige brand and its brand power, the brand sustained its positive growth.

Brands such as NARS, Drunk Elephant, and Narciso Rodriguez had very strong growth, driving the overall business. NARS grew to be the third brand in our company to exceed net sales of JPY100 billion following Shiseido and Clé de Peau Beauté. ANESSA had a big decline in sales.

There was the impact from the treated water, but we do realize there are brand challenges as well. So, we will turn around the brand with initiatives such as creating new hero products going forward.

Net Sales YoY: Sales Remained Largely in Line with Our Previous Forecast

Like-for-like*	2023									
	vs. 2019					vs. 2022				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Japan	−32%	−29%	−27%	−12%	−25%	+8%	+9%	+6%	+17%	+10%
China	+10%	+43%	+4%	+12%	+18%	−3%	+20%	−9%	−21%	−5%
Asia Pacific	+1%	+5%	+10%	+26%	+10%	+16%	+12%	+15%	+8%	+13%
Americas	+67%	+46%	+46%	+28%	+45%	+30%	+18%	+10%	+9%	+15%
EMEA	+30%	+19%	+27%	+0%	+17%	+22%	+11%	+15%	+26%	+19%
Travel Retail	+30%	+2%	−12%	−32%	−3%	−4%	−4%	−25%	−43%	−20%
Total	+0%	+4%	−5%	−1%	−1%	+7%	+10%	−2%	−6%	+2%

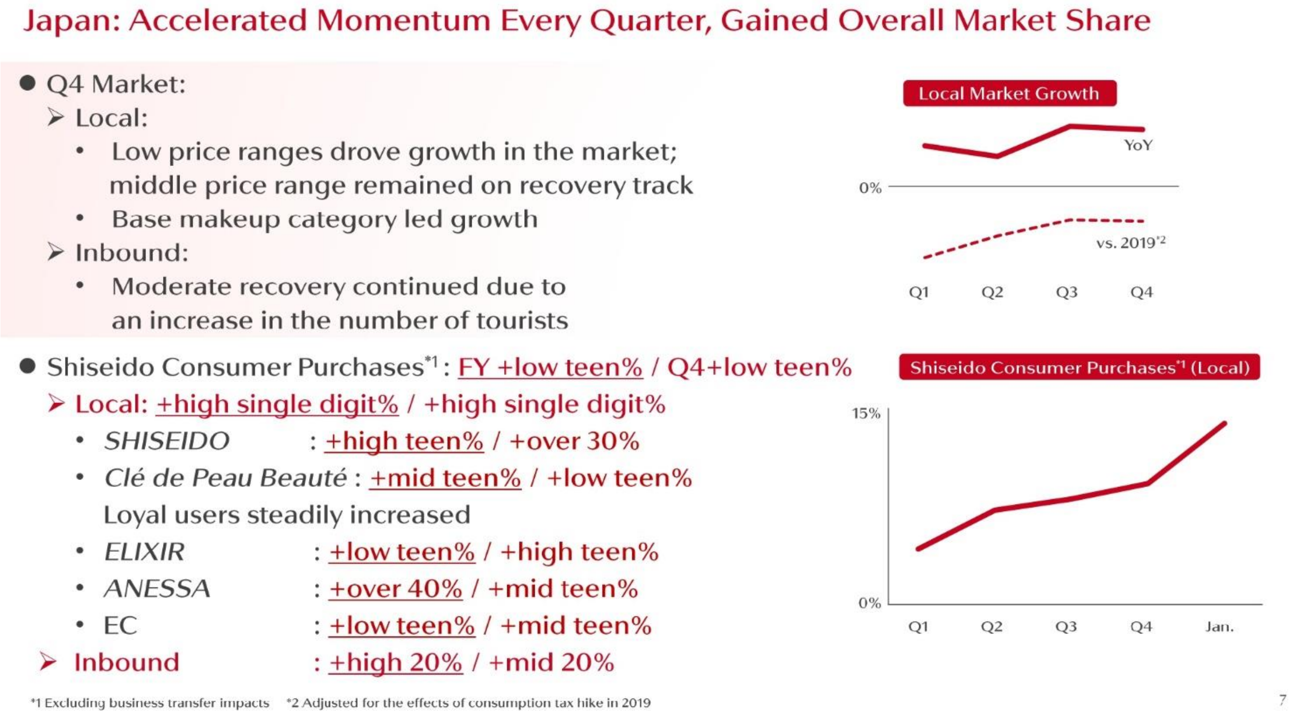
* Excluding FX and business transfer impacts

6

Next is page six, Net Sales YoY.

For the full year, the overall company had positive growth from strong growth in Japan, EMEA, and Asia, although China and Travel Retail experienced negative growth. As a result, the net sales remained largely in line with our previous forecast disclosed in November.

In Q4, refraining from Japanese products after the treated water release impacted China and Travel Retail, as well as the inventory adjustments continued in Travel Retail for South Korea and Hainan Island, resulting in negative sales in these regions. We were able to partially offset in other regions, but net sales resulted in minus 6%- overall for the quarter, a bigger minus range compared to Q3.

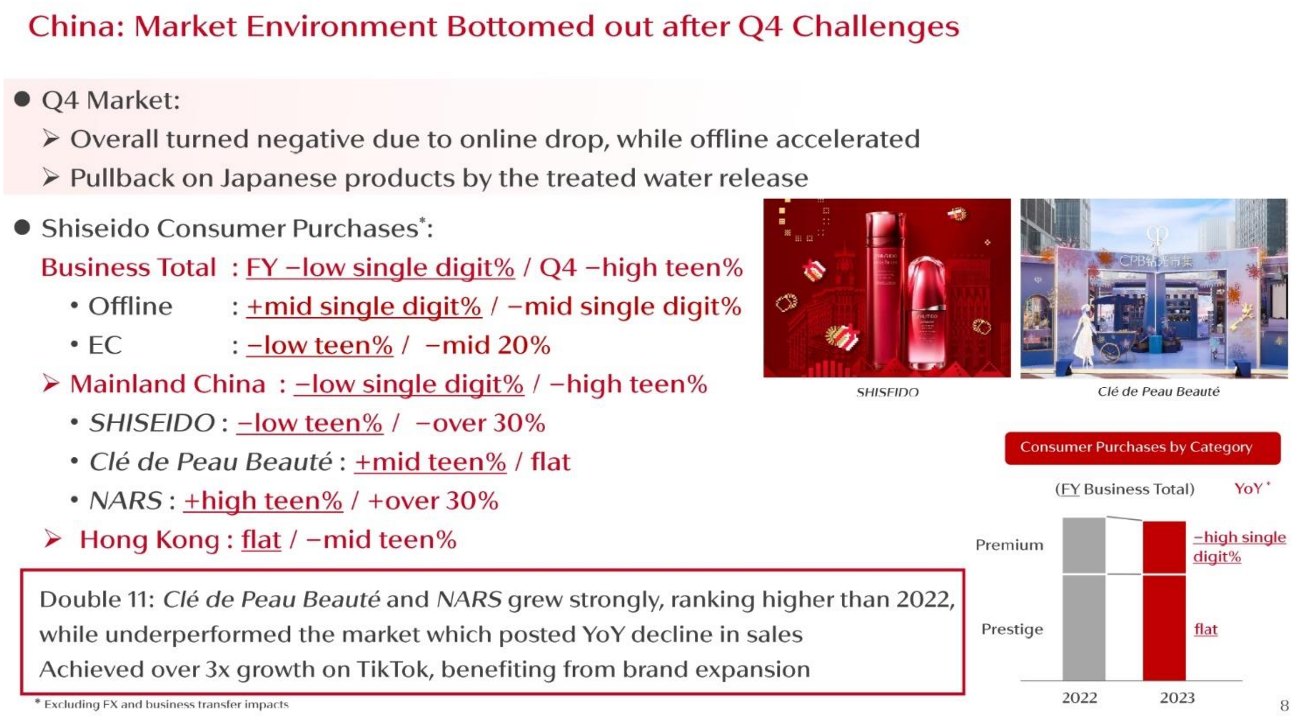


Next to slide seven about the Japan Business.

The market is solidly recovering. First, for the local market, the low-price range continues to drive the growth, and mid-price range growth rate expanded further in Q4 remaining on recovery track. In such environment, we continue to concentrate our marketing investment to our focused area in core brands in mid- to high-price range to expand the loyal users, allowing the company to expand share overall for the full year.

Local consumer purchase accelerated its growth rate QoQ, realizing high single-digit growth for the year. Now in January, the local consumer purchase is accelerating further to mid-teen percentage kicking off 2024 with a good start for high growth for the year. By brand, Shiseido grew significantly in Q4 by over 30%, and also for the full year by a high teen percentage, mainly due to great performances of new products such as renewal launch of Ultimune in Japan and the Revitalessence Skin Glow Foundation, a newly formulated foundation mixed with beauty serum.

Clé de Peau Beauté also continued its double-digit growth in the mid-teen percentage significantly exceeding the market performance. Elixir had a growth of low teen percentage for the year, expanding its share and driving the market contributed by the continued high performance of the renewed wrinkle cream in September and the newly launched Total V Firming Cream, the fruit of state-of-the-art technology for firm and toned skin. Inbound was a growth of high 20%. There is recovery with increase in tourists, but the treated water release continued to impact Q4, resulting in performance lower than expected.



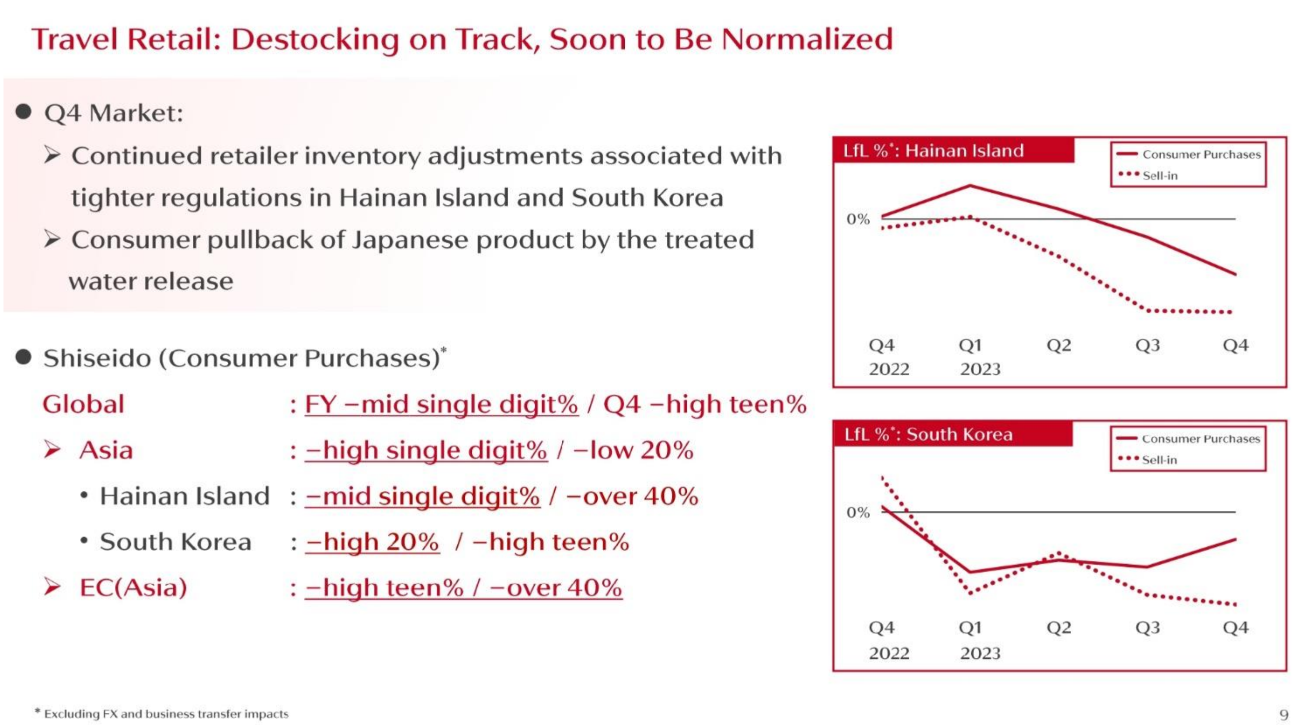
Next is page eight, the China Business.

As we expected in November, Q4 was a tough market environment with the consumer pullback due to treated water release uncertain market situation as well as decline in bulk purchases. However, the sales decline range stayed within the forecast, and we see that we have hit bottom heading to a recovery trend. As for the market, the off-line grew in Q4, but the online experienced the big minus, resulting in a negative overall.

Our consumer purchase was minus high teen percent for Q4 and minus low single-digit percent for the full year. Online was heavily affected after the treated water release, resulting in minus mid-20% for Q4. Off-line was also a minus mid-single digit.

By brand, the signature Japanese brand, Shiseido, faced tough results of over minus 30% in Q4. However, Clé de Peau Beauté in the high prestige did well landing flattish to last year. The company struggled more than the market in the Double 11 campaign, but Clé de Peau Beauté and NARS captured strong growth and actually increased its ranking.

In TikTok, we expanded our brands, realizing a growth of over three times of that versus last year. Although there are headwinds to Japanese brands at the moment, we were able to make good decisions on investments to invest in what works under such environment to protect our profitability, and we also captured wins in areas where we should win.

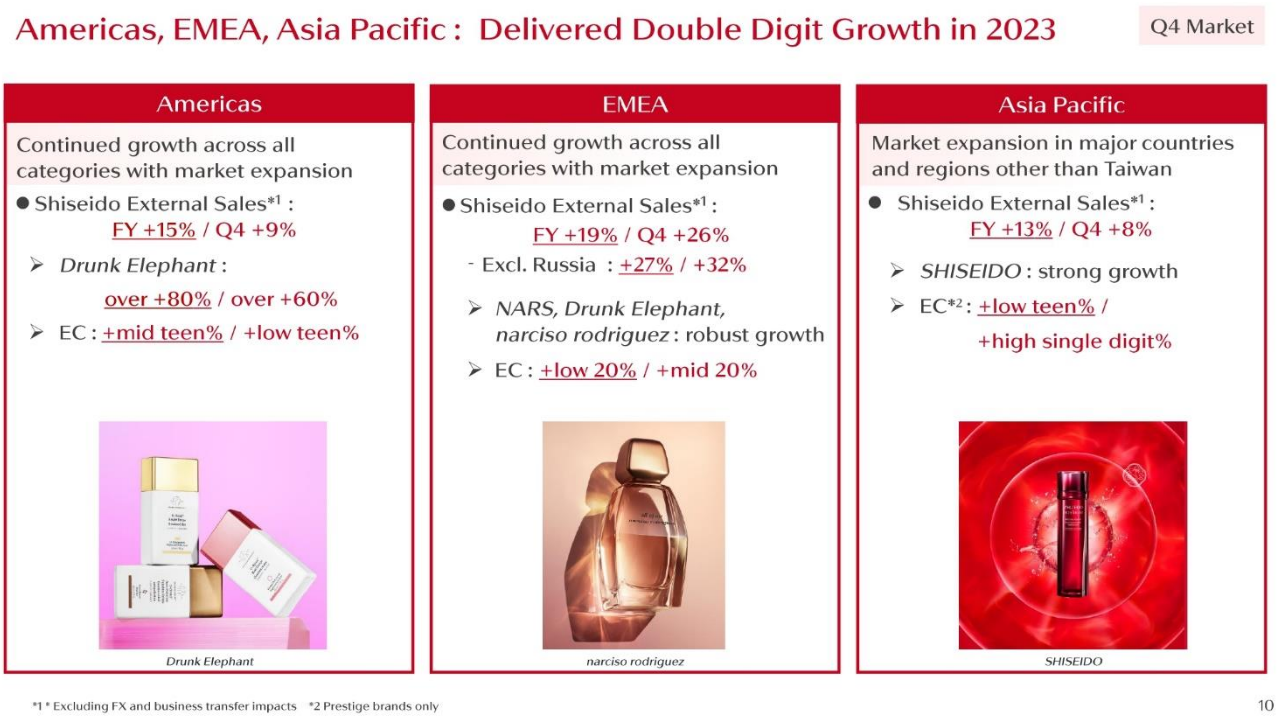


Next, page nine, we'll look at Travel Retail.

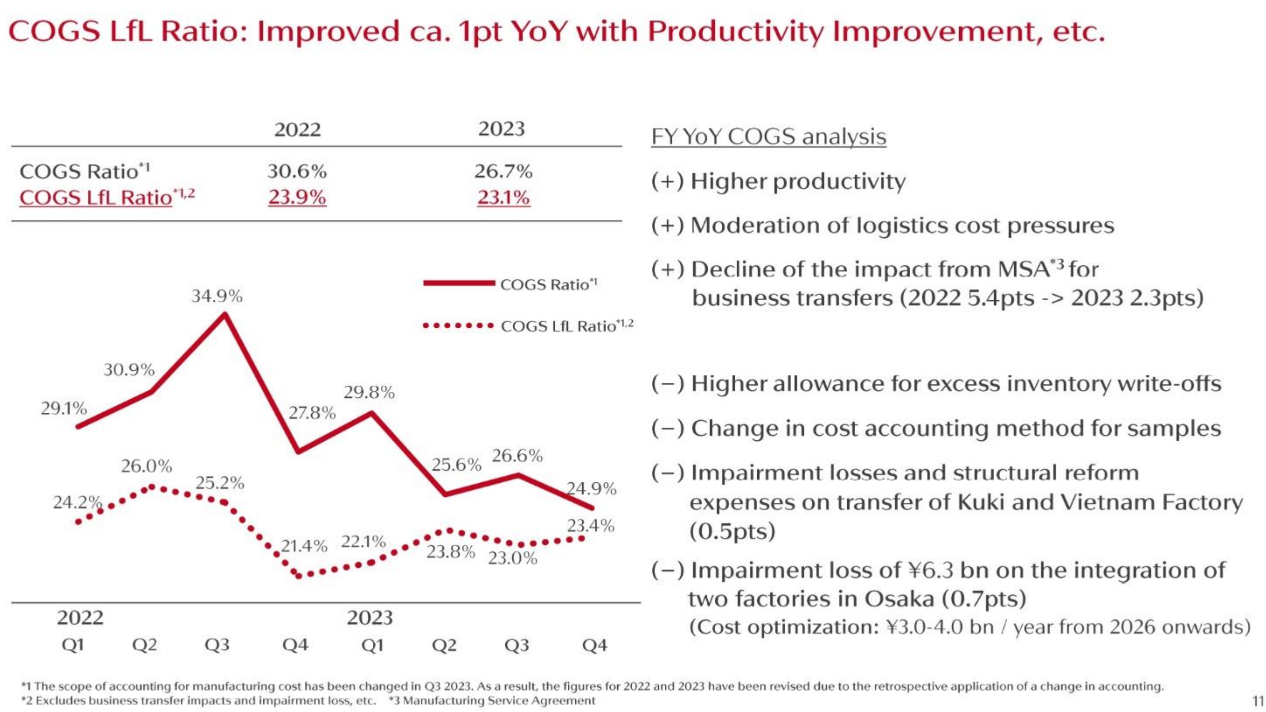
The market continued to see adjustments in distribution inventories due to tightening regulations as well as reluctance to buy Japanese products following the release of treated water. Consumer purchasers in Q4 were in the high minus 10% range globally and in the low minus 20% range for all of Asia, excluding Japan.

The chart to the right shows the percentage of consumers who purchased Japanese products in Q4 of the previous year.

For Hainan Island in Korea and respectively, and with a solid line, as you can see from the difference between the solid line and the dotted line, shipment sales were lower than consumer purchases in Q4 as well and the reduction of distribution inventories progressing and schedule towards completion of the optimized process.



Next page 10, the Americas, EMEA and Asia Pacific achieved double-digit growth for the year, primarily driven by the growth of global brands such as Drunk Elephant, NARS, and Narciso Rodriguez. Going forward, we will continue to strengthen our investments for sustainable growth and expand our market share.



Next, Cost Ratio on page 11.

In Q4, the real cost of sales ratio worsened by about two points from the previous year due to an increase in allowance for write-offs of unevenly distributed inventories mainly as a result of lower sales in China and Travel Retail sales. However, due to the cost improvement and the logistics cost improvement, it is down to about one point difference.

FY2023 Core Operating Profit by Reportable Segment

Japan : Returned to profitability driven by higher gross profit from increased sales
China : Profit improved significantly supported by higher gross profit driven by sales growth in 1H, and agile cost management despite YoY sales decline in 2H
Asia Pacific : Delivered YoY growth driven by higher gross profit from sales growth despite negative impact of business transfers
Americas : Delivered YoY growth driven by higher gross profit from sales growth despite negative impact of business transfers
EMEA : Declined YoY impacted by business transfers, etc., despite higher gross profit driven by sales growth
Travel Retail : Declined by lower gross profit due to lower sales
Other / Adjustments : Declined by lower gross profit driven by lower intersegment sales to China and Travel Retail, and increased DX related investments

(Billion yen)

Core Operating Profit (Core OPM)	2022		2023		YoY
Japan	−13.1	(−5.4%)	1.8	(0.7%)	+14.9
China	−3.9	(−1.5%)	7.0	(2.8%)	+10.9
Asia Pacific	4.7	(6.6%)	5.1	(7.1%)	+0.4
Americas	7.7	(5.3%)	11.2	(9.7%)	+3.5
EMEA	6.9	(5.0%)	3.3	(2.7%)	−3.6
Travel Retail	37.7	(23.0%)	17.1	(12.9%)	−20.6
Other	7.1	(2.3%)	−23.3	(−9.4%)	−30.4
Adjustments	4.3	-	17.6	-	+13.3
Total	51.3	(4.8%)	39.8	(4.1%)	−11.5

12

Next, page 12, Core Operating Profit by Reporting Segment.

Although Japan did not reach the initial plan due to a downturn in inbound sales, the marginal gain from higher sales led to a significant increase in profit and the segment returned to profitability for the full year. China posted a marginal gain in H1 due to higher sales. In H2, despite lower sales, cost management contributed to a significant increase in profit.

In the Americas, increase due to a marginal gain from higher sales despite some offsetting factors such as the impact of business transfers resulting in a profit margin of approximately 10%. Travel Retail posted a significant decrease in profit due to a large margin gain from lower sales.

Others and adjustments. The net income decreased by approximately JPY17 billion due to various factors as described above. The major impact was marginal decrease due to the decline in intersegment sales to China and Travel Retail.

2024 Sales Assumptions

	Sales Forecast	Assumptions
Japan	Total: +11% Local: +mid single digit% Inbound: +over 60%	Local: ● Expect to see growth in both online and offline market while polarization will likely continue ● Core brands to deliver strong growth, while sales decline in Japan local brands due to SKU rationalization Inbound: ● Tourist recovery will continue ● Negative impact of the treated water release lingers in Q1 2024 followed by recovery in Q2
China	+5%	● Moderate market growth: Changes in consumer behavior, becoming pragmatic (focus on functionality and efficacy) ● Negative impact of the treated water release lingers in Q1 2024 followed by recovery in Q2 ● Outperforming the overall market by strengthening investment in growth opportunities
Travel Retail	+7%	● Retailers shifting back towards the business model with focus on tourists, putting more focus on inventory management <Inventory adjustment> - South Korea : Done at the end of 2023. Slow pace of tourism recovery - Hainan Island: Will be done by the end of Q1 2024
Americas	+10%	● Market to grow steadily with mid single digit% growth ● Shiseido to outperform the market driven by *NARS* and *Drunk Elephant*
EMEA	+13%	● Market to grow steadily with mid single digit% growth ● Shiseido to outperform the market driven by *Drunk Elephant* and fragrance
Asia Pacific	+13%	● Robust growth in Southeast Asia, steady growth in mature markets (countries/regions) including Taiwan and South Korea ● Shiseido to outperform the market through achieving strong growth in Southeast Asia

13

Page 13 shows our Assumptions for 2024.

As we have explained, the market environment bottomed out in 2023, and we aim to achieve a steady growth and recovery in 2023 through high-quality growth strategies and cost structure reforms.

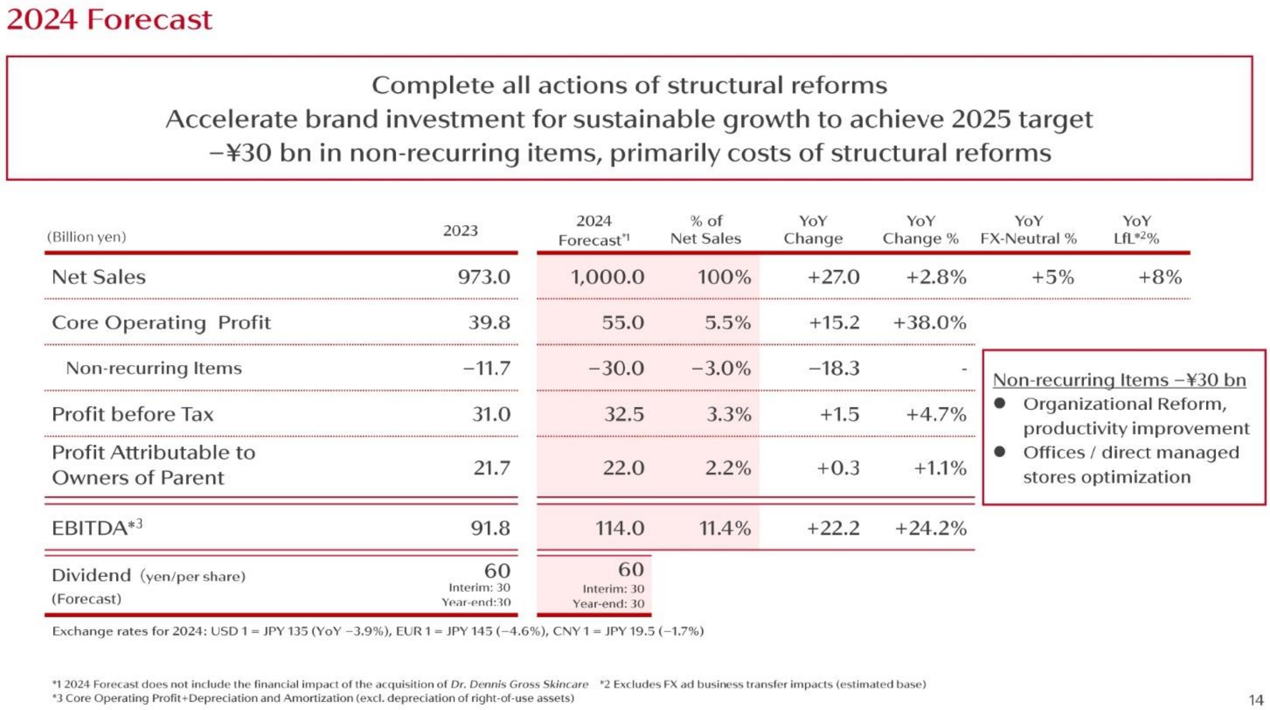
We expect 11% overall growth in Japan, mid-single-digit growth locally, and growth in both online and off-line markets, but we also expect continued polarization of consumption. We will transform our business model, optimize SKUs, and promote selection and concentration. As a result, sales of local brands in Japan will decline due to streamlining while we aim for strong growth in core brands.

Inbound sales are expected to exceed 60% with continued growth due to the increase in travelers and the impact of treated water release to continue through Q1 but ease from Q2 onwards.

China is growing at 5%. Market growth is expected to stabilize and grow in the low single digits due to a shift in consumer purchasing behavior towards essentialism with an emphasis on efficacy. The impact of treated water is expected to continue through Q1 and ease from Q2 onward. We aim for above-market growth in our sells through increased investments in growth areas.

Travel Retail will grow by 7%. We will return to a travel-centric business model and continue to maintain appropriate levels of distribution inventory. In South Korea, inventory adjustments have been completed. Thereafter, we expect that market to grow and mobilize in line with the pace of travel recovery. In Hainan Island, inventory adjustment is expected to run its course in Q1 of 2024. We will work to maximize sales by offering attractive products and marketing to travelers.

Growth is expected to be 10% in Americas and 13% in Europe. In both regions, we expect the market to grow steadily in the mid-single digits, but we aim to grow our sales above the market. Asia Pacific is expected to grow 13% with mature markets, such as Taiwan and South Korea, continuing to experience stable growth, driven by economic growth in Southeast Asia. We assume that growth in Southeast Asia will outpace market growth due to accelerated growth in the region.



2024 Forecast

Complete all actions of structural reforms
Accelerate brand investment for sustainable growth to achieve 2025 target
−¥30 bn in non-recurring items, primarily costs of structural reforms

(Billion yen)	2023	2024 Forecast*1	% of Net Sales	YoY Change	YoY Change %	YoY FX-Neutral %	YoY LfL*2%
Net Sales	973.0	1,000.0	100%	+27.0	+2.8%	+5%	+8%
Core Operating Profit	39.8	55.0	5.5%	+15.2	+38.0%		
Non-recurring Items	−11.7	−30.0	−3.0%	−18.3	-		
Profit before Tax	31.0	32.5	3.3%	+1.5	+4.7%		
Profit Attributable to Owners of Parent	21.7	22.0	2.2%	+0.3	+1.1%		
EBITDA*3	91.8	114.0	11.4%	+22.2	+24.2%		
Dividend (yen/per share) (Forecast)	60 Interim: 30 Year-end:30	60 Interim: 30 Year-end: 30					

Non-recurring Items −¥30 bn
- Organizational Reform, productivity improvement
- Offices / direct managed stores optimization

Exchange rates for 2024: USD 1 = JPY 135 (YoY −3.9%), EUR 1 = JPY 145 (−4.6%), CNY 1 = JPY 19.5 (−1.7%)

*1 2024 Forecast does not include the financial impact of the acquisition of *Dr. Dennis Gross Skincare* *2 Excludes FX ad business transfer impacts (estimated base)
*3 Core Operating Profit+Depreciation and Amortization (excl. depreciation of right-of-use assets)

14

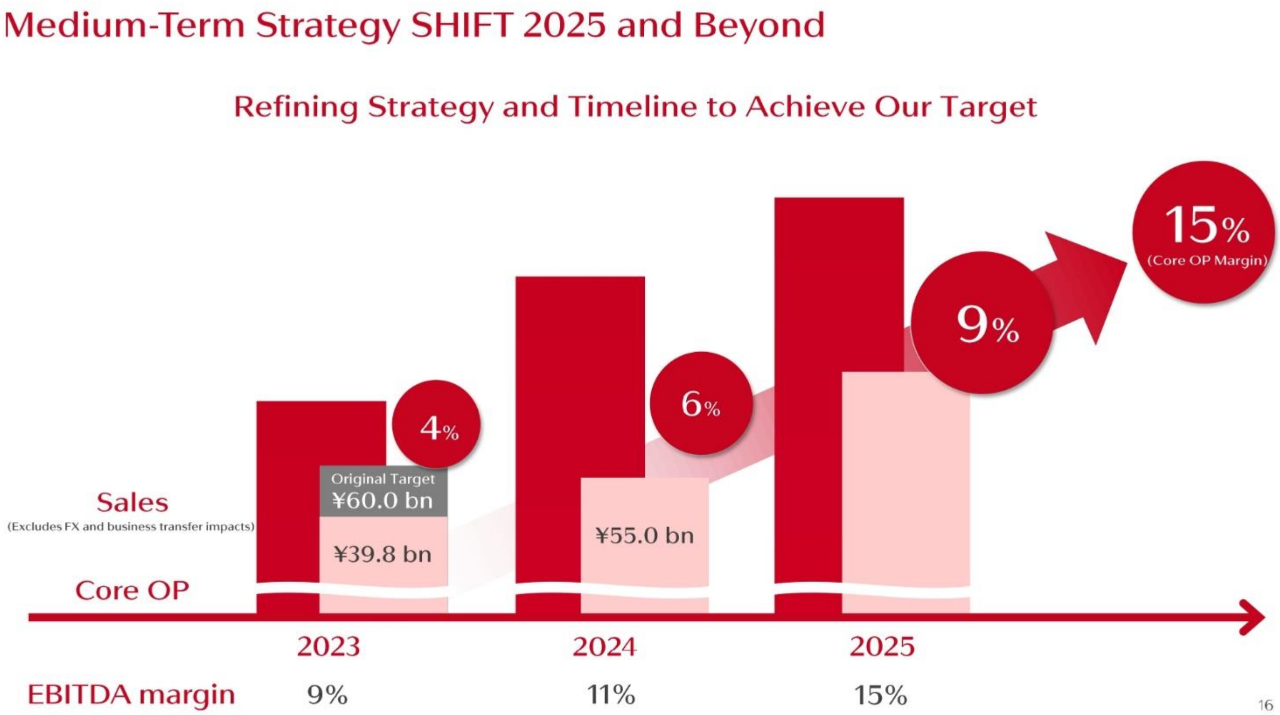
Page 14 is the Outlook for 2024.

We are assuming sales of JPY1 trillion and a real YoY growth rate of 8%. The sales assumptions are the same as reported earlier. Core operating income will increase by JPY15.2 billion to JPY55 billion, and we will bottom out in 2023 and make a strong recovery.

We will continue to make investments to strengthen our brand value for sustainable and stable growth and will steadily implement strategic investments such as FOCUS. We will also steadily promote measures to increase gross profit, which will be discussed later by Mr. Fujiwara later to improve profitability.

Net income is JPY22 billion. We plan to record JPY30 billion in nonrecurring items mainly for structural reform expenses, including organizational reform, productivity improvement, and rationalization of stores and offices. As a result, net income in 2024 will remain at about the same level as the previous year, but we will proceed with the structural reforms without delay in order to provide profitability in the following fiscal years and beyond.

Now, I would like to invite Mr. Fujiwara for his presentation.



Fujiwara: Now, I would like to update you on the Medium-Term Strategy SHIFT 2025 and Beyond.

In this medium-term strategy, we will focus to enhance execution and deliver results while adapting to the change in market environment. In the midterm strategy, there is no change to the core strategy of continuous growth and improvement in profitability.

However, we have refined the target to adapt to the market environment change.

First, the core operating profit in 2023 landed at JPY39.8 billion from the original plan of JPY60 billion. We take this result seriously and have started a review of the business structure of the whole company for structural reform. We will follow through with the structural reform, leading the year 2023 as bottom and committed to turn around the business.

The core operating profit target for 2024 is JPY55 billion. By executing the structural reform, we will aim to achieve core operating profit margin of 9% in 2025, a year behind the original schedule. By completing the structural reform, we will continue to target the core OP margin of 15%.

Vision & Strategic Direction for 2024 and 2025

Executing Business Transformation:
Achieving Profitability and Resilience through Growth and Structural Reforms

- Global cost reduction (¥40.0 bn+)
- Complete Japan structural reform and accelerate growth
- Achieve high-quality sustainable growth in China and Travel Retail
- Accelerate growth in Americas, EMEA and Asia Pacific
- Advance growth momentum of core brands
- Enhance gross profit: Develop growth drivers to maximize results

18

We will complete the business transformation by 2025 with achievement of continuous profit growth and structural reform as core components. In detail, global cost reduction of over JPY40 billion; complete Japan structural reform and acceleration of growth, achieve high-quality growth in China and Travel Retail, while accelerating growth in high-performing Americas and EMEA as well as Asia Pacific, and further strengthening of core brand growth momentum with expansion of gross profit.

We will execute these items by 2025 to build a resilient business structure.

Global Cost Reduction Measures: Completing Main Actions in 2024 1H to Ensure Full Impact in 2025

2023	2024	2025
	Implementation	Full Impact

(Billion yen)

Cost Improvement Impact	2024	2025	Total	<Major initiatives>
Japan	8.0	17.0	25.0	
COGS	3.0	2.0	5.0	SKU rationalization, focus on global/Asian brands, strategic price increases
Marketing and Other Expenses	2.0	8.0	10.0	Optimize marketing promotional costs, streamline current IT systems, increase marketing ROI
Organizational Productivity	3.0	7.0	10.0	Optimize organization structure, special early retirement system
China	5.0	3.0	8.0	Optimize organization structure, reduce inventory and drive localization of samples, optimize marketing promotional costs
Travel Retail	1.0	1.0	2.0	Optimize brand portfolio, increase marketing ROI, optimize organization structure
Asia Pacific, Americas, EMEA, Other (Global HQ)	1.0+	4.0+	5.0+	Improve productivity through FOCUS implementation, improve productivity at factories, SKU rationalization, optimize logistic networks and indirect procurement, streamline current IT systems, reduce IT outsource expenses
Total	15.0+	25.0+	40.0+	

19

In terms of global cost reduction measures, we will pursue over JPY40 billion of cost reduction in two years, as you see in this page.

Japan will target JPY25 billion of cost reduction. On top of the JPY10 billion in China and Travel Retail, adapting to market environment changes, we will also execute a cost reduction of JPY5 billion in other regions to enhance the profit structure.

These measures have already started to take place from end of last year, and the core action plans will aim to be completed in H1 of 2024, so that we can capture the full benefits in 2025.

Japan: Brand Portfolio Strategy

Attaining Market Leadership through Identifying Diverse Consumer Behaviors and Preferences

➢ Selection and concentration of brands

- Global / Asian brands
  - High growth in 2023, with 4pts increase in sales composition ratio
  - Customer Loyalty Enhancement - *Clé de Peau Beauté* and *SHISEIDO*
  - Aim for 70% sales contribution aligned with global markets over the mid- to long-term
- Japan Local Brands: Sharpen target and marketing initiatives
- Focus on hero SKUs: Periodic product renewal, new communications

➢ Innovative marketing for new market creation

- Establishing a new skin beauty category
- Expanding portfolio through new value creation; Inner Beauty Business

20

Next is about the reform in Japan. To realize sustainable growth in the Japan market, we will aim to create new market capturing the diversified needs from the change in consumers' values.

In detail, we will concentrate the investments to global and Asian brands that are achieving high growth since 2023. Through the selection and concentration, we will further enhance the sales platform by expanding the loyal user base and to aim for 70% of sales from these brands.

For Japan local brands, we will sharpen the targets and marketing initiatives while capturing the changes of Japanese consumers. Also, we will focus on hero SKUs to enhance growth and profitability.

We will also continue innovative marketing for new market creation, creation of new category utilizing skincare technology, and expansion of new business portfolio such as the inner beauty category.

Japan: Consumer Touchpoint Strategy

Delivering Exceptional Consumer Experiences by Leveraging Key Strengths

➢ Distribution Channel

- EC: Accelerate strategic actions for each platform, targeting 30% in 2025
  - Retail.com: Create seamless customer experience by reinforcing OMO strategy
  - Owned.com: Renewal of Watashi+, enhancing consumer experience and satisfaction
  - Pure Play: Enhance new brand entry
- Department stores: Increase loyal customer base - *SHISEIDO* and *Clé de Peau Beauté*
- Drug stores: Shifting to self-selection model
- Cosmetics specialty store & GMS: Achieve optimization and productivity by strengthening localized marketing initiatives

➢ Touchpoint

- Delivering value through personalized service
  - Identifying focused consumer touchpoints / fostering relationships with consumers through localized services

21

For the channel strategy, we will convert to a business model where growth will further contribute to profit. We will accelerate initiatives in EC where the growth opportunity and profit rates are both high. We will create seamless consumer experience by reinforcing OMO strategy with our EC business partners.

As for our owned.com, we will be renewing the website to improve consumer experience. We will also expand brands in EC sites. For department stores we will seek further profit improvement by growth with loyal user base expansion and prestige brands.

As for drugstores, we will shift more to self-selection model. For cosmetic specialty stores and GMS, we will achieve productivity improvement by optimizing the area-based investments. We will shift to consumer-centric activities concentrating the investment to consumer touch point strategy from channel-based market operation.

Next, China and Travel Retail markets are shifting from rapid growth to steady growth. By price range, high prestige has high growth, continuing its competitive landscape in prestige and premium including price competition. Expansion in middle-class consumers with growth of regional cities and diversifying channels, expansion of Chinese local brands, the market is becoming more diverse and more complex.

As for Travel Retail, we predict increasing more tourists, but we see a rising trend of Travel Retail EC purchased by Chinese consumers.

Winning in China: Strengthening Investments in Growth Opportunities

Building a Sustainable Profit Delivery Business Model in a Moderately Growing Environment: Emphasizing Quality Growth

- Focus on high-prestige brands targeting affluent consumer base
  - *SHISEIDO* : Future Solution – accelerate growth
  - *Clé de Peau Beauté* : SYNACTIF, Supreme etc.
  - *The Ginza* : expand both E-commerce and offline
- Expand brand portfolio
  - *NARS, Drunk Elephant* growth acceleration
- Targeted marketing for local consumers, including marketing asset creation
- Address digital platform diversification
- Brand expansion into emerging retailers
- Brand expansion into tier 3-5 cities targeting rising middle-class consumers
- Travel Retail refocus on travelers' growth (70-80% of sales contribution in 2025)

23

Market change continues to be predicted in China, but it continues to be an important market for our company. Therefore, we will continue to aim for high-quality, sustainable growth with steady profit creation.

We will focus on the high prestige brands and product line targeting affluent consumer base, aiming for a low teen percentage of growth. Also, we will accelerate the growth of NARS, originally an American brand to a growth of high-teen percentage. We will be pushing forward Drunk Elephant in China for further acceleration and growth. We will execute targeted marketing for local consumers, including marketing asset creation with diversified digital platform and expansion into new retailers.

We will also accelerate expansion into local cities to steadily capture the growth opportunities across China. For Travel Retail, we will shift to more traveler-centric approach to realize high-quality growth.

Wining in China: Operational Reform for Productivity

➢ Business Transformation

- Less reliance on large-scale events, strategic marketing leveraging consumer data to enhance loyalty and satisfaction
- Reducing price promotions, expand our official route to market
- Optimize physical number of stores
- Streamline organization structure for productivity and efficiency

➢ Driving synergy through an integrated approach for China and Travel Retail

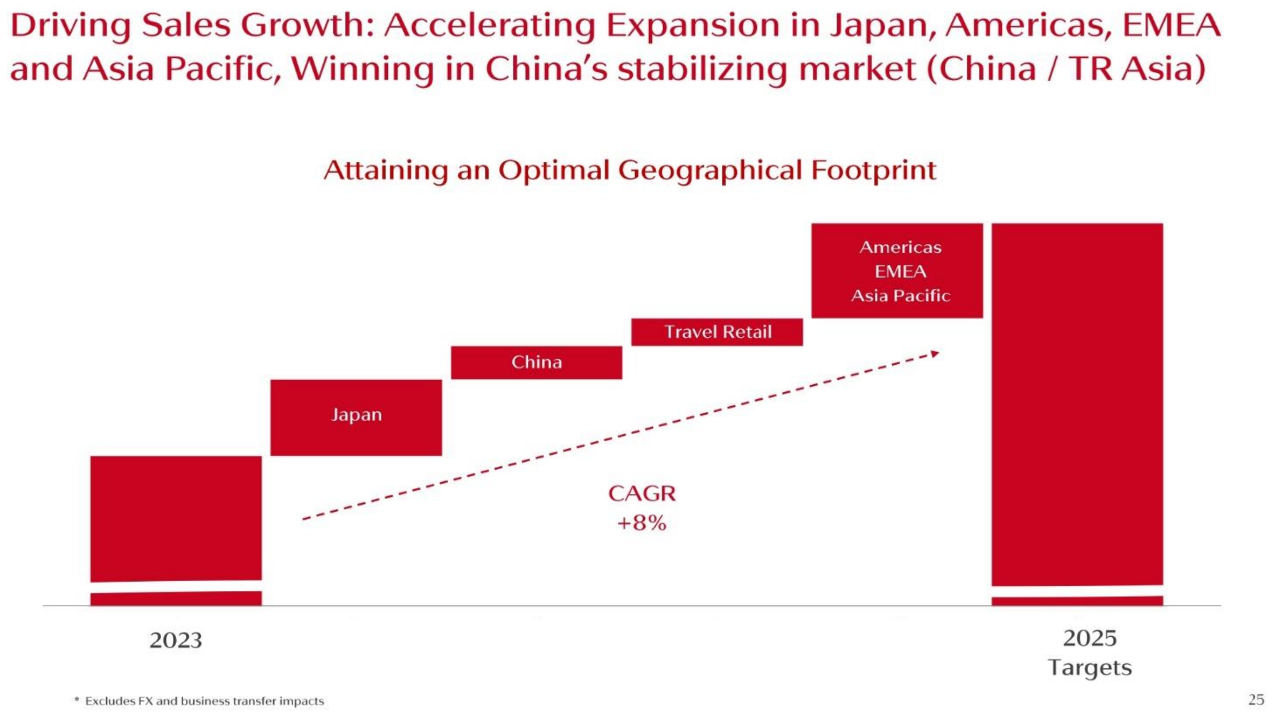
- Travel Retail Region CEO to report to China Region CEO
- Integrated marketing activities and investment optimization
- Reinforcing strategic investments for key retailers
- Operational processes optimization

24

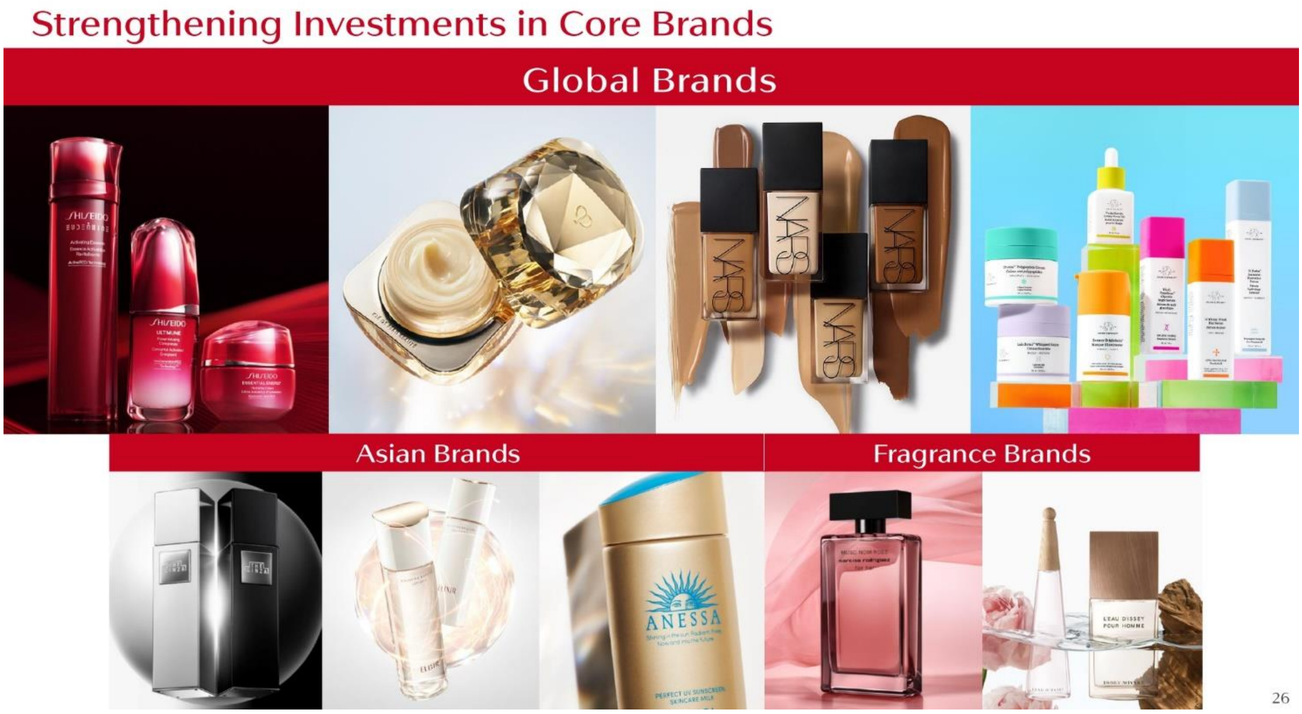
In order to execute these growth strategies, we will convert our business structure.

First of all, we'll be less reliant on large-scale events, enhance the loyal user base, and convert to more data-driven marketing. At the same time, aim to stabilize the market by suppressing price promotion and tighten the control and expand our official route to market. Along with these strategy changes, we will also streamline the organization structure for productivity improvement.

Also, we will drive synergy through an integrated approach for China and Travel Retail to aim for stronger brand equity and optimize investment for Chinese consumers. We will change the direct reporting line of Travel Retail CEO to China Region CEO to optimize cross regional integrated marketing and investment activities. Also, by integrating, we aim to reinforce strategic investments for key retailers for an optimized cross-regional operation.

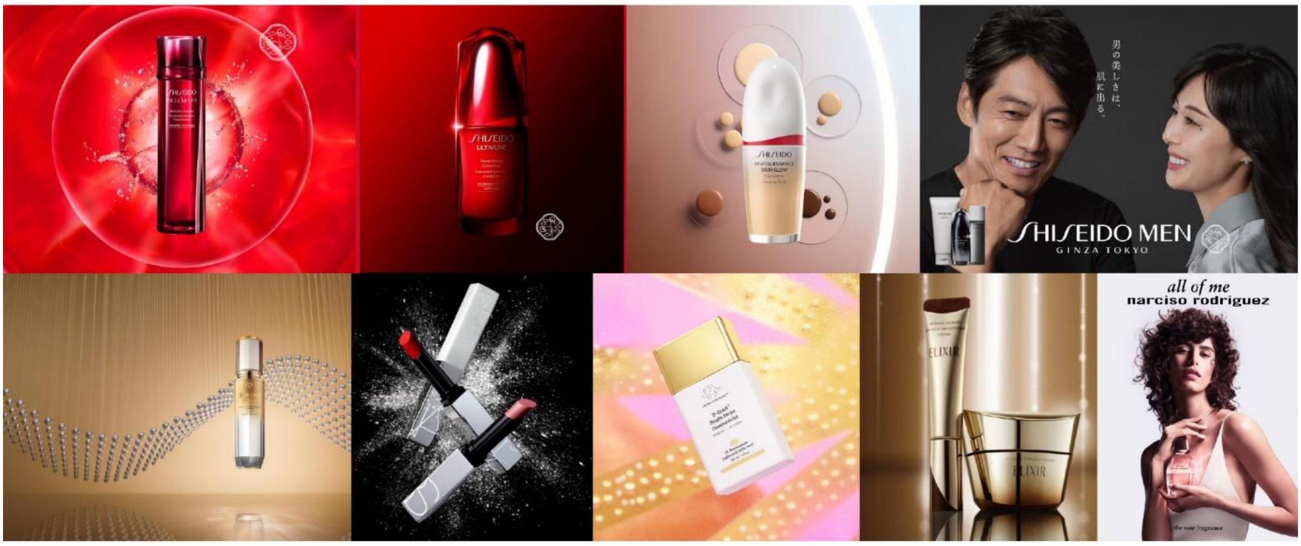


As you can see, China and Travel Retail will continue to be reinforced as important markets. At the same time, we will accelerate growth in Americas, EMEA, and Asia Pacific for attaining the optimal geographical portfolio.



In terms of brands, we will continue to strengthen investment into our core brands.

2023: Cutting Edge Innovation in Core Brands



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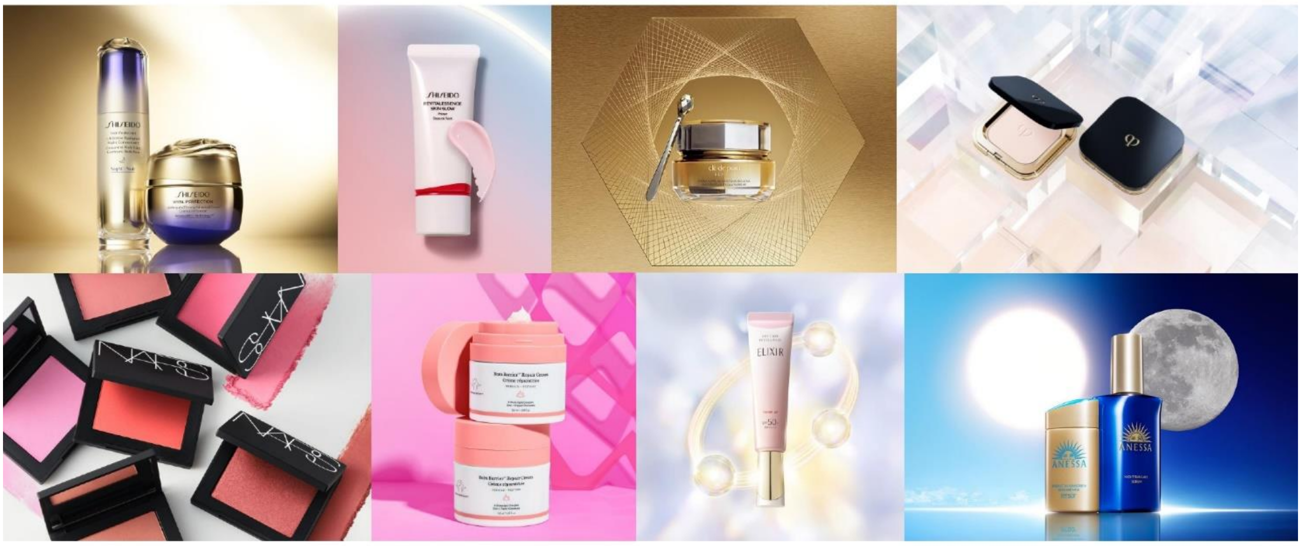
In 2023, we achieved high growth, not just through our innovative new product launches but also through new communication creation of existing products like we did with Shiseido Men.

2024: Innovative Product Launches



28

We have prepared more new innovative product launches for 2024, and we will aim for high growth and loyal user base expansion through innovation.

Gross Profit Enhancement: Develop Growth Drivers to Maximize Results

Definition of gross profit

Consumer purchase
− Retailer margin
= External sales
− Rebate
− Returns
− COGS
= Gross profit

Topline growth
Strong innovation and effective communication to enhance brand value

Price harmonization
Periodic review on retailer price,
reduce price promotion, expand official route to market

Brand / SKU mix
Strategic high growth for global brands and hero products,
SKU rationalization

Channel mix
Delivering Exceptional Customer Experiences, increase Japan EC ratio

COGS improvement
Procurement, E&O reduction, inventory management,
manufacturing utilization & productivity

29

This year, we are also working on initiatives focusing on gross profit growth. Not only will we focus on the top line growth, but we will elevate on price strategy, optimize brand product channel mix, and the whole company will work together to maximize the gross profit by more than just reducing COGS.

Now, I would like to hand over to the CFO, Yokota-san, to talk to you about the financial targets based on these strategies.

Financial Targets

		2023 Results	2024 Forecast	2025 Target
Return on capital Improvement	ROIC	4.0%	5%	9%
	ROE	3.6%	4%	11%
Cash generation capability improvement	Free Cash Flow	¥53.5 bn	¥70.0 bn	¥100.0 bn*1
	DSI	197 days (235 days*2)	230 days	200 days
Sound financial position	Net D/E	0.06×	0.1×	0.2× or less
	Net D/EBITDA	0.39×	0.6×	0.5× or less

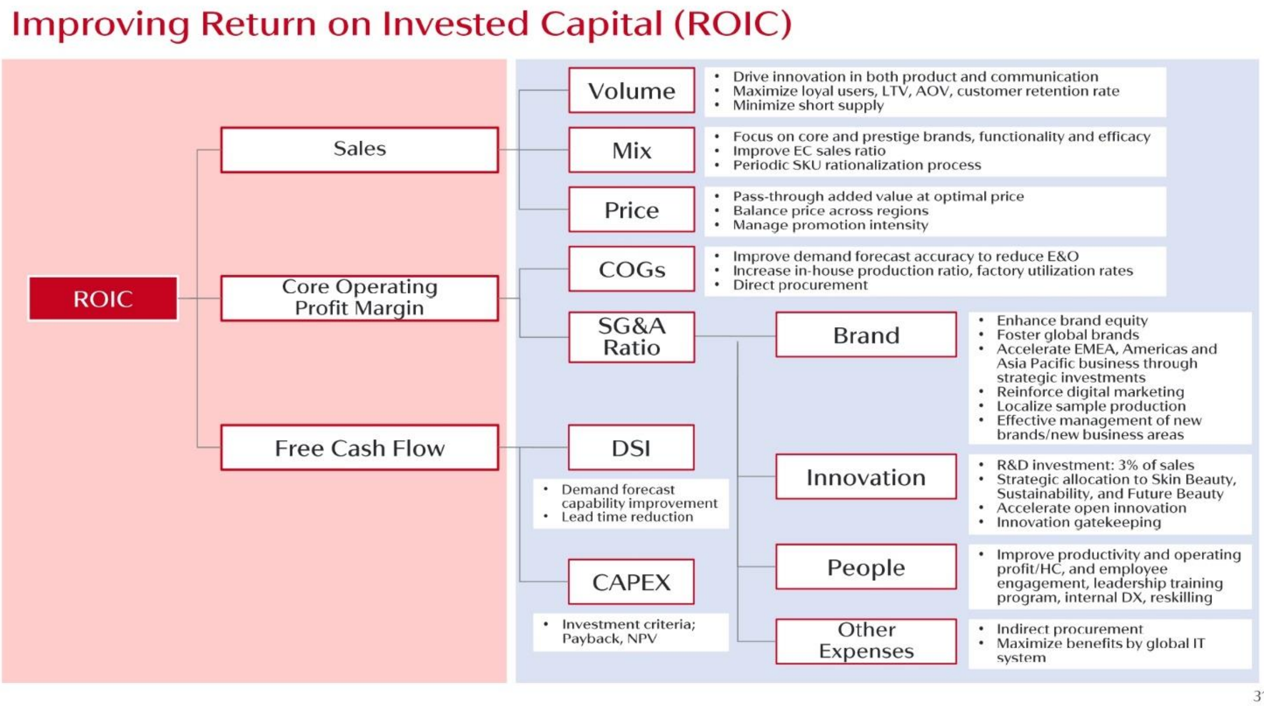
*1 Excludes cash outflow from M&A *2 Excluding impacts from product supply due to business transfer and from impairment losses (estimation)

30

Yokota: Now, for the financial targets. As the year 2024 is midway of the structural reform, we have yet to achieve full recovery, but we will aim for a ROIC of 9% and ROE of 11% by 2025. For free cash flow, although the profit decline compared to the target previously mentioned for 2025, we will secure the JPY100 billion, as mentioned before, through actions such as capital efficiency improvements and sales of idle assets.

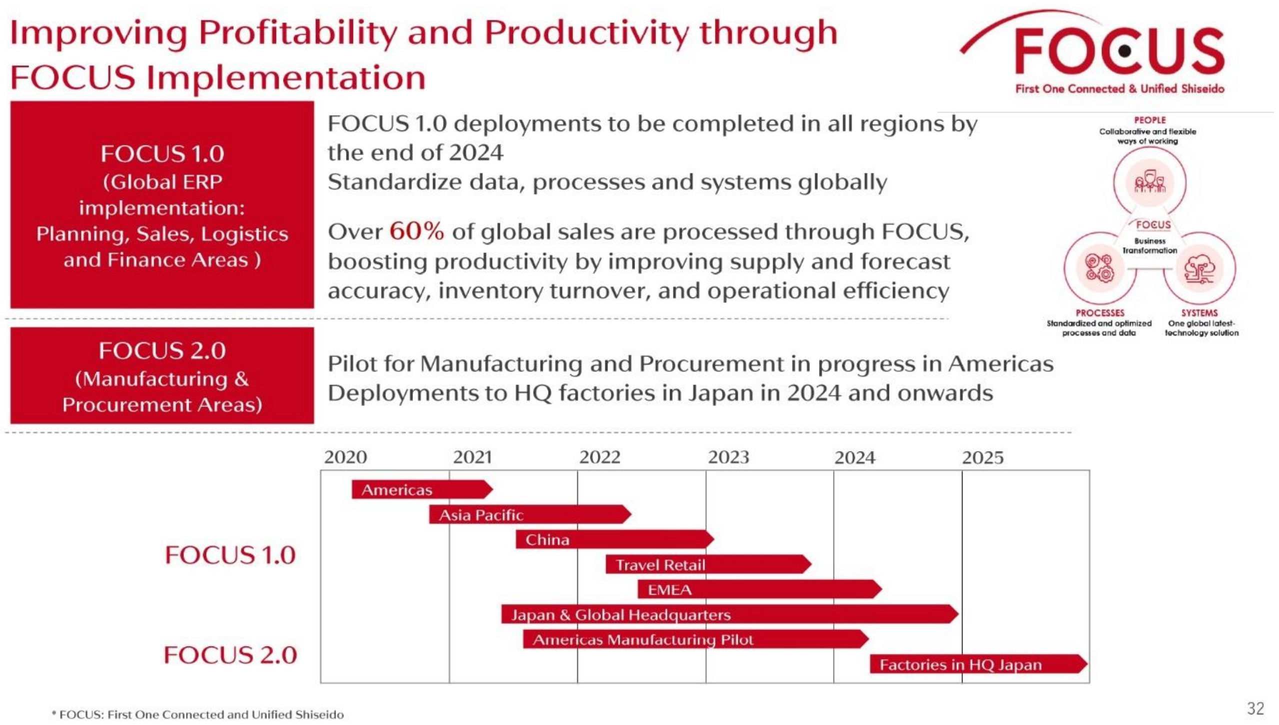
As for one of the key metrics in our company, the days, sales, and inventory, DSI, we have newly set as 200 days, considering the current situation and the recovery of market environment in the future. For a sound financial position, we keep the previous target and sustain the policy of a rating.

The acquisition process of Dr. Dennis Gross has completed according to schedule; however, it will not impact the target achievement of capital efficiency and sound financial position.



In order to improve ROIC, which is our most important capital efficiency indicator, we have set the three key drivers with sales growth, core operating margin, and free cash flow.

We will improve each of these areas through the actions shown below.



I will now explain the progress of the FOCUS 1.0 project, a globally integrated ERP system. In 2023, we completed the implementation of FOCUS in China Travel Retail and Phase 1 in Japan. About 60% of our global sales are already being handled by FOCUS. Implementation in all regions is scheduled to be completed in 2024, contributing to further profitability, productivity, and capital efficiency improvements. That is all for me.

Fujiwara: Now, let's start with an overview of our initiatives for 2030.

So far, I have explained our initiative for the two years of 2024 and 2025, and the core operating margin that we are aiming for 2025, which is 9%. However, I do not believe that 9% is sufficient profit margin that can be reinvested for sustainable growth. It is also not a level that satisfies Shiseido's goal of becoming a global company.

The target of 15% core operating margin is not just a number. It is the profitability required for a global company, and we believe that our efforts to achieve the target are the source of the competitiveness of our business. How can we achieve this goal as quickly as possible despite major changes in the market environment? We will tackle this issue by mobilizing the wisdom and execution capabilities of the entire company.

At the present stage, we are aiming to achieve the 15% target in 2028 or 2029, compared to the 15% target we have set for 2027 at the time of our announcement last February. As I've explained, the major changes in the business environment have slowed down our sales in China and Travel Retail, which has been a large part of our business that had high profitability had a large negative impact on consolidated operating income. In order to recover from this, we are currently pushing the three pillars described here and we'll further accelerate them in the future.

The first is to maximize and accelerate growth in existing business. Japan's population is expected to decline and high market growth is difficult to predict. As a top company in this market, we will expand our market share and create new business areas and maximize sales. Although the Chinese travel retail market is unstable, it is the world's largest skin care market with a population of JPY1.4 billion.

We will use our accumulated experience and data to identify growth areas and win in this huge market. In the Americas, Europe and Asia Pacific, we aim to sustain to further accelerate high growth achieved in 2023, and we will achieve growth opportunities in all regions to maximize sales. In parallel to these growth efforts, we aim to generate revenues that exceed growth by advancing mechanisms to maximize gross profit, including strategic improvements in brand mix and pricing. As a result, we expect growth in existing business to exceed 5% in 2026 and beyond.

Second, we will complete over JPY40 billion in cost structure reforms by 2025. Through this process, we will incorporate measures to constantly improve productivity into our business management. In order to continue to refine our competitive and strong corporate structure, we will continue to optimize cost on a constant basis beyond 2025.

Third, to expand into new areas, we will create new beauty categories within the cosmetic business, but by capturing Shiseido's world-class technologies and diversifying consumer values and also aim to expand into areas outside the cosmetics business by utilizing M&As and collaborations with other companies.

Through this effort, Shiseido aims to achieve a 15% core operating margin in the travel retail market in China, even though the market environment is deviating significantly from the initial plan with a delay of one to two years, namely from 2028 to 2029.

To achieve these growth targets, our business portfolio will be strengthened and expanded in core areas with skin care as core of a business portfolio by 2030.

In the core skin care area, we will strengthen such as the derma and medical, where our portfolio is thin, we'll also leverage our skin care technologies and expertise to create new beauty categories by integrating them with other categories. Furthermore, we aim to develop into a new lifestyle value proposition that transcends the cosmetics domain.

Reinforcing Skin Beauty Category: Entering the Dermacosmetics Market through Acquisition of Dermatologist-led Prestige Skincare Brand; *Dr. Dennis Gross Skincare*

Dr Dennis Gross SKINCARE

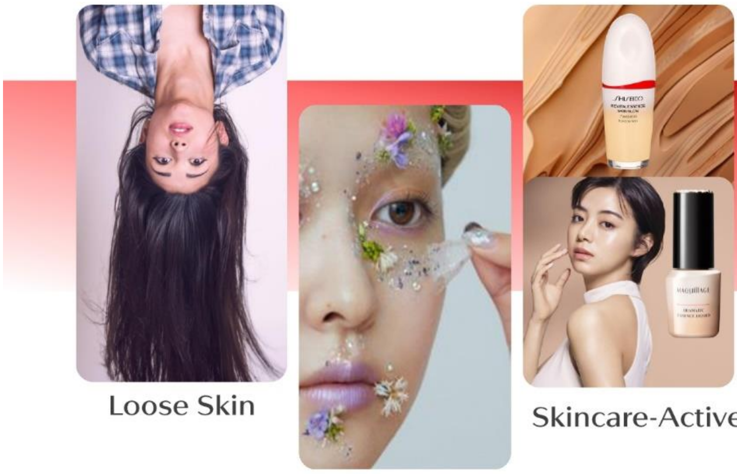
➢ Acquisition rationale

- Complement the white space in our business; derma & medical cosmetics
- Reinforce our prestige skincare brand portfolio under the skin beauty strategy
- Expected to drive growth and profitability in the Americas Business
- Contribute to value creation and global business expansion through synergistic partnership

36

In the derma area, we announced the acquisition of Dr. Dennis Gross Skincare, a derma brand from United States. This acquisition will expand our prestige skincare portfolio in the US region, and we will leverage our existing business base to achieve growth and increase profits.

Developing New Beauty Frontiers by Expanding the Skincare Category; Loose Skin, Second Skin, and Skincare-Active Foundation



Creating new beauty categories to become the No. 1 company, complementing our core strength; anti-wrinkles, brightening*, and sun care, etc.

Loose Skin

Second Skin

Skincare-Active Foundation

* Inhibits melanin production and prevents the formation of dark spots and freckles

37

Next, preparations are already underway to expand skin care technology. Specifically, we will leverage IFSCC award-winning technology to create a new anti-aging category. The second market. Second Skin is expanding its domain from exclusive use for the eye area to makeup. Skincare Foundation with the function of a beauty essence, et cetera, we aim to achieve an overwhelming number one position and high profitability by leveraging our proprietary technologies to create new categories in the market.

On February 1, we launched a new business, Shiseido Beauty Wellness, marking our entry into the inner beauty market. We aim to create a new market by fusing beauty and wellness through our life science data and joint development with Tsumura and Kagome, Japan's leading companies in each field. We will continue to take on the challenge of creating new markets in these areas, including collaborations with new partners.

Localization of Innovation

Existing Business

- R&D
  - Regional innovation centers (RIC)
- Brand holder satellites
  - Further strengthening of product development and marketing fitted to consumers in each region

New Market Expansion

- Localized M&A drive
- Beauty innovation contest
  - Employee-initiated new business ideas
- Consumer-driven new business development

Region innovation centers

A researcher from RIC (Europe) has received the top award at IFSCC* for the first time

Beauty innovation contest

* The International Federation of Societies of Cosmetic Chemists: an international organization where cosmetic engineers from around the world gather for the development of more functional and safer cosmetic technologies

39

We will strengthen our structure to realize this growth. First, innovation creation on the core of our existing business growth has been continuously strengthened since the past. Last year, we produced the first IFSCC winners from our innovation centers in Europe. Going forward, we are strengthening our structure and capacity to create innovations, not only originating in Japan, but also in other regions, as our R&D in each region deepens its understanding of local consumers and create innovations that originate in the region.

In addition to strengthen our growth core brands in our core markets, we will establish brand holder, satellite offices in Americas and China. We will not only localize brand communication, but also promote sustainable growth in our core markets as satellite offices for product development.

To create new markets, we have established M&A teams in Japan, China and the Americas. We will accelerate our entry into new markets and vacant areas. Meanwhile, we have introduced a beauty innovation contest system to create new businesses by maximizing the creativity of our employees globally. Last year, approximately 2,000 ideas were collected from all over the world, and we are proceeding to materialize three of the new ideas. As a new initiative, we also plan to establish a mechanism for value creation through co-creation with consumers. We will utilize this mechanism to realize our vision of 2030, which is to become a PERSONAL BEAUTY WELLNESS COMPANY.

Therefore, our three areas of investment will remain unchanged for medium- to long-term growth, brand, innovation, and human capital.

We placed sustainability at the center of our management strategy and promote the creation of social value and resolution of social and environmental issues through our core businesses. These activities and disclosure efforts have led to improvements in external ESG evaluation, including an AA rating from MSCI last year and being named an A-list company for forest in addition to climate change by CDP in February of this year.

We will continue our efforts to be a sustainable company that is needed by society. With regards to governance, as already announced, we plan to transition to a “Company with Three Statutory Committees” after the Ordinary General Meeting of Shareholders in March of this year, which we will clearly separate the functions of business execution and supervision and enhance the effectiveness of our strategies.

Finally, we will complete the business transformation by 2025 and build a structure that can sustainably generate earnings after which we will continue to grow our existing businesses and take on the challenges of discovering and creating new beauty values to realize beauty innovations for the better world. We aim to realize a bit well through the power of beauty.

That is all for me.

Question & Answer

Hirofuji [M]: Thank you very much. Now, we would like to go into the Q&A session. As we hope to take as many questions as possible, we would like to kindly ask to limit one question per person. Before you ask your question, please kindly share with us your company name and your name. For those participating online, if you have a question, please enter your company name and your name in the chat on the Zoom screen, addressed to the host & panelists, and then type in your question. The questions received will be read out by the moderator. Please note that we will prioritize questions from the audience at the venue.

Kuwahara [Q]: Hello. I'm Kuwahara from JPMorgan. Thank you for your presentation. In the medium-term plan, I'm sorry, I don't have the page with me, but in the midterm, 4%, 6%, 9%. I'm looking at the page where you said you pushed one year back. But if you could just simply share with me the story behind this.

What I want to confirm with you is in 2023, the fiscal year that just ended, the reason why you went from JPY35 billion to JPY39.8 billion. In 2024, you mean for JPY15 billion of cost reduction, and though there's an impact of about JPY27 billion increase in revenue, but the profit increase is limited to JPY15.2 billion. Why is that?

In 2025, this 9% that you mentioned for 2025, what you changed was, I think, was it just China in Travel Retail? Or in 2025, the Japan business, you said that you will achieve the JPY50 billion, but does that not change for the Japan business? You also mentioned that you started doing the structural reform. Do you feel that it's achievable in Japan? If you can talk about these changes in profit and profit margin in terms of timeline, that would be appreciative.

Yokota [A]: For 2025, how we came up with this 9% for the core OP margin for 2025. First of all, in 2023, the market momentum, considering the market momentum for 2023, China and Travel Retail, we had originally forecasted rapid growth, but we advised it to steady growth.

Drunk Elephant and NARS, these brands have been very good in Americas and EMEA, so we're rebalancing our regional footprint. We are heightening our focus in these areas, including investments. 2022 to 2025, CAGR in 2023, the base in China had gone down or has been reset. But the CAGR of 8% was the initial forecast, but 22% to 26% is now 6%. It has now been adjusted to 6%.

Along with that, the new sales and we are reviewing the cost structure, so not just China and Travel Retail, but in other regions, we are looking at an additional JPY15 billion of cost restructuring. The JPY25 billion in Japan has already been included for 2025. Put that together, 2024 and 2025, we will aim for JPY40 billion.

Along with that, China and Travel Retail, the sales will go down, but our initial target of profitability, we will keep. China is positive five points from 2022. Through structural reform, we will keep this target. We will keep this number. China is enhancing on the investment and the mix promotion and aiming to accelerate the GP so that we can reduce some of the fixed costs as well.

However, our profitability to begin with, has been quite high on average in China in Travel Retail but has significantly gone down from our original forecast. The region forecast had about four points of impact. We will try to revise that through structural reform by about one point or a little over one point so that we aim for 9%, which is three points down from the original 12%.

Fujiwara [A]: In terms of how the Japan business is proceeding, of course, in terms of the structural reform, as management, we are committed to turn the business around. As Yokota-san has mentioned earlier, this

JPY25 billion, that's something that we will continue to pursue. Now, the profit that we get from growth, as explained earlier, from Q4, the growth strategy that we had planned, we're actually seeing the fruit of it or it's turning into our results.

One, global and Asia core brand, focusing on these brands. Through the strategies, these brands have actually been driving our numbers from Q4. That's one thing. Secondly, not just the cost, but the growth by innovation, and we can also grow through existing products. We're seeing impacts of these areas when we look at the overall picture. That's the second point.

Next, as we try to convert the business model. In terms of that, of course, we will continue to expand on EC, and that's on track. Furthermore, Elixir has been growing well in Q4. The market is actually driven by the low-price range. However, Elixir, which is the mid-price range, it's growing well, and how this brand is growing is not just by new product launches, but actually, in fact, by existing products in emulsion lotions, it's growing.

The price of about JPY10,000, which is actually a high price point for self-drugstore, but it's actually selling. The cream that we sold for JPY8,800, 30% to 35% came from self-drugstores. But this V cream that we just launched, more than 50% is actually coming from self-drug stores as well. That gives us some of the optimization of people and giving us some confidence as to how this brand is performing and what we can do in this market as well.

This year, we have many items in plan in the pipeline, so along with profitability growth and cost improvement, I believe that JPY50 billion in profit in Japan is achievable.

Kuwahara [Q]: Thank you very much. So, 2025, JPY50 billion, you said it's on track, and that's good. That will stay for Japan.

But if that is the case, as for 2024, cost reduction and increase in sales, but it's only going to be about JPY15 billion in profit increase. Is there a cost or investment and changes in region mix? Is that the reason why these numbers are this case in 2024?

Yokota [A]: Yes, there is also a FX effect as well. We have set the assumption at JPY135 to the dollar at the moment. Compared to 2023, we're looking at some negative impact for FX as well. Investments as well as the Inner Beauty, the new business launch, we have additional investment that we have just spoken about. With that included, we're looking at JPY55 billion. Another big point to mention is the allowance for the bonus is also 100% basis. That's another reason for the number.

Kuwahara [Q]: Okay. This will be my last question. This fiscal year that just ended, 2023, it exceeded the actual revision. You said, yes, the Total V Firming Cream did well, et cetera, and that's great. But you also mentioned that Japan did not actually match what was expected. What made you exceed 2023? What made you exceed the forecast disclosed in November?

Yokota [A]: What happened in 2023 was EMEA performed higher than expected. Top line and bottom line had exceeded our prediction, our forecast. Also, in the headquarters and because of this kind of situation, we have tightened our cost control at the headquarters. Also, China, as we looked at the Double 11 campaign, we looked at the situation and said, “Okay, this is not where we should invest.”

We will invest in makeup, as mentioned in the presentation, so that we can get the highest return on investment. So, we reallocate our investment. In China, the top line was actually as forecasted, but the profit, China was able to contribute as well. These were the three main factors that allowed us to exceed the forecast.

Kuwahara [M]: Okay. Thank you.

Hirofuji [M]: Any other questions? Person in Brown.

Sato [Q]: Sato from Morgan Stanley Securities Firm. I would like to talk about the non-recurring items. Every year, it was 2022, JPY4.8 billion; and 2023 is JPY11.7 billion; and this year will increase to JPY30.0 billion. The core operating profit this year is JPY55 billion. The bottom line profit will hardly increase.

Basically, it's very difficult to look into the non-recurring items. When we look at your plan for cash flow with only a marginal increase in the bottom line profit, there must be losses incurred in the non-recurring items that do not involve cash outflow, such as an impairment. So, I would like to know your estimate for an impairment or EBITDA. In other words, I would like to confirm whether it would be correct to understand that the EBITDA will increase in 2023 and 2024. Second question, when we look at the core operating profit is not calculatable from the outside. There will be an announcement on the final core operating profit. But then, I think the debt should be done also for the bottom line profits. Is it something that the nonrecorded item will also be part of the final results? If this is to continue, then we will not see any increase in the bottom line profits so we would wonder about the EPS and could you also explain how the EBIDTDA will turn out at the end of this fiscal year?

Yokota [A]: Up to now, since 2020, since the COVID-19 crisis, and we also sold some businesses in 2021. At that time, we sold our businesses and there were some cases that we made profits such as Personal Care while we also made losses by selling other businesses. In 2022, the COVID-19, there was a resurgence of COVID-19 in China, so we sold the Personal Care production business, and we made a contract with selling that part of the business. 2022 was our impairment. As for 2023, we actually sold and there is the loss from the sale, and we offset the loss by selling some real estate assets.

We have been involved in structural reform over a long period of time, so there were a number of non-recurring items. As far as 2023 is concerned, now the business landscape of the backdrop is changing dramatically. So, in order to achieve cost reduction of JPY40 billion by 2025, this 30 billion, actually JPY27 billion for the structural reform cost is incorporated in our forecast at the moment. That is the current situation.

Sato [Q]: EBITDA is provided, my apologies.

Yokota [A]: Yes, we do have a EBITDA number here.

Sato [Q]: So, that means that, structural reform may continue for some time in the future, but core operating income and IFRS operating profit is going to match in next year?

Yokota [A]: We are not considering the value to be so high in 2025. We would like to make the maximum effort in 2025. Therefore, we will make as much actions as possible in 2024. Out of the JPY30 billion of non-recurring items, the JPY27 billion are related to the reform.

Sato [Q]: So, they will be matched in the next year?

Yokota [A]: Yes, they will be closer.

Sato [Q]: Understood.

Hirofuji [M]: Then, we would like to take questions from participants online. let me read out the question. This is from Mr. Oba of Citigroup.

Oba [Q]: Please let me know about the pricing strategy. There are some announcements of the price increase in some brands in Japan. Will this happen also overseas? Also, in terms of the long-term overall strategy, the CAGR of 5% is announced for 2026 and beyond. Could you give us the quantitative breakdown of this number, and which region is more than the average, and which is the most promising and growing region? How will this contribute to the pricing strategy?

Fujiawara [A]: Let me talk about the growth strategy first. About 5%, Mr. Yokata will answer.

In regard to the enterprise strategy, this will be a global undertaking. As far as Japan is concerned, from April 12, we will increase the pricing. So, the price by changing prices in Japan will link the pricing strategy with the rest of the world is a plan that we have put in place since last year.

The price strategy and the price increase that we are emphasizing, it is difficult to control forex impact, but we would like to minimize the pricing gap as much as possible. We will minimize the pricing gap, we call it the corridor, so we will minimize the regional differences in pricing so that products will not go from region to region. We are working on the pricing harmonization across Shiseido, across the Company. We started this initiative last year, and we're continuing on into this year. As explained, we shall do so, so as to contribute to maximizing gross profit.

Yokata [A]: I would like to talk about the more than 5% growth since 2026. According to our assumption now, China and Travel Retail will be the growth in mid-single digit, which is a stable growth. Asia Pacific, the Americas, the EMEA, their growth will be according to the strategy up to 2025, will be high single digit. Beyond the market growth, that's what we will aim for.

For Japan, the low single-digit percentage point growth, which is beyond the market growth is our target. In total, more than 5% or 5% or more growth is something that we are aiming at.

Fujiawara [A]: Also, for the Americas, there's a Drunk Elephant, NARS, these two brands will have been leading the growth significantly. The brand Shiseido still has room for growth, we think.

As I explained earlier, in order for us to grow in this gigantic US market, we set up the brand satellite office or center so that we will accelerate our activities to fit the US market, the American market. In fact, the e-commerce and also “Sephora” and “Ulta”, the new channels that are more promising in terms of growth rather than the department stores.

However, the brand Shiseido still has a high proportion of sale from department store. So, why we cannot go into “Sephora”? The merchandising has not been localized fully, so we can’t be part of “Sephora”. Take communication for example, it is different from what will work in US. That's why we will leverage the satellite office in the US.

And also, there are niche brands that is leading the growth in the “Sephora”.

For instance, in the derma category, we made an acquisition of a company in which we have been set in terms of the portfolio, so we will try to grow in this market segment. We will also accompany this with the higher profitability of the organization. With that, we would like to do better in the Americas market. Also, for the EMEA, half of the markets are actually from the fragrance segment. Our existing fragrance products are doing very well in Europe. In addition, it is a highly profitable business, so the fragrance business is in the virtual cycle.

Let me talk about skin care. In France, Spain, Germany, Italy, put together, we became number two in the skin care. We are better positioned than Lancome and Estee Lauder. We're in the second position in these four major markets in Europe. We have established a system to make sufficient profit for reinvestment in Europe.

From next year onwards, we will have a very powerful fragrance pipeline in Europe. In Europe, we will certainly strengthen our skin care segment. But with the existing products in the fragrance, we would like to make enough profit for further growth.

For Asia Pacific, there are many different countries and regions. Let me focus, first of all, in Thailand, which is showing a very robust growth, and the brand portfolio will be expanded so that we can leverage on that for higher growth going forward. Also in India, we have entered into India with the NARS makeup products which is still quite small in size, but showing much better sales than we had expected.

We expect that NARS cosmetics in India will be another growth driver. We would like to take a bold challenge in Asia Pacific regions to capture growth opportunities as well.

Hirofuji [M]: Another question from online from Mitsubishi UFJ Trust Bank, Hyogo-san.

Hyogo [Q]: As for cost reduction, I understood your view on cost reduction. However, how do you measure the investment impact, efficiency of investment? How do you control and manage? You had an M&A, but in this uncertain market situation, were there points that you had reviewed or revisited through this M&A?

Yokota [A]: As for your question, how do we measure the return on investment, I think, is your question. As mentioned earlier, these three levers are where we look at the ROIC or want to improve on the ROIC. For example, this may overlap with some of the numbers, but for e-commerce, we are trying to improve the number of consumer acquisition or lifetime value, AOW, repeat customer rate, customer retention rates. Globally, we're trying to get these data to improve ROI and find out how we leverage learning for our next actions. These are the things that we are working on.

On a global level, when I review each region or country, I look at the proportion of marketing costs versus net sales which is, of course, one of the discussion points.

Regarding big investments or CAPEX, defined as investment criteria on the slide, Payback and NPV are what we will look at when we make ultimate decisions for investment.

Of course, when we calculate NPV, we calculate it based on a hurdle rate higher than WACC as one of measurements for making our investment decisions. In terms of the structural reforms that we are talking about, JPY27 billion out of JPY30 billion. As for this JPY27 billion, in order to achieve the JPY40 billion cost reduction target, we look at Payback for each item in the coming two years. We look into these factors when we make our decisions. That is all for me.

Hyogo [Q]: Related to this question, in your meetings and your committees, how frequent do you monitor your performance?

Fujiwara [A]: On a monthly basis, we have meetings with each of the regions and brands to look at the current situation and how it is proceeding. We have a monthly review meeting. On a monthly basis, we look at the cost as well, but we look more for the growth opportunity. We focus more on the growth opportunities and what is working well, what we would enhance on investments to expand this growth opportunity. That tends to be the case. Also, kind of going back to what was mentioned earlier.

Within our explanation, we keep talking about high-quality growth. In terms of this, for example, if you look at China as an example, of course, we will invest firmly as needed. But looking at 2022, large-scale promotion and other unique or specialized sales exceeded 30% of the total sales.

This kind of sales contribution, we want to keep it under 30%.To simply put it, we're not trying to look at short-term sales hike, but we need to make sure we have a sustainable and more of a midterm growth. Where do we grow the sales, where do we lift the sales for a more sustainable growth, especially in China and Travel Retail? We are monitoring together with the regions to assess the growth situation.

Fujiwara [A]: As for M&A, of course, if there are any opportunity to M&A, we will be proactive to looking into it. However, of course, there are conditions and criteria to look into it. One is the skin beauty. Within the skin beauty strategy, does it match with our strategy in highly in regard to the skin beauty?

Second point is whether that brand we are targeting itself is making profit or not.

Third point, if we are targeting a brand that is out in the market, right now, we are not trying to do any strategy where we will launch and roll out such brand globally all at once. We will look at the footprint. For example, the Dr. Gross that we recently acquired, we will focus on achieving firm growth in the Americas where the brand has originated. We will look at that. And then depending on how it goes, we will expand into other regions. Based on our various experiences, for the acquired brands, we must make sure that they match into our portfolio. And that is our approach to M&A.

Hirofuji [M]: We will take another question from online Yamanaka-san from SMBC.

Yamanaka [Q]: Regarding South Korea and Hainan Island, sell-out is in the general trend of a negative. The turnover on the shop front seems to be worsening. Is there a possibility that the sell-in, even if the sell-out is negative, sales is going to turn to positive?

Yokota [A]: As I explained earlier, Korea Travel Retail inventory has already been leveled out or normalized at the end of 2023. Therefore, the return of the Chinese travelers is rather slow to Korea, and the conversion is not so good in Korea. For the sell-out to catch up, it's going to take some more time in Korea in Q1 or even up to Q2.

Regarding Hainan Island, inventory optimization is now underway. At the end of Q1, it is going to complete. The recovery of the travelers in Hainan Island is now higher than the level of 2019. However, the recovery of tourists in Hainan Island has, in fact, already started to outpace its 2019 level.

Chinese consumption has some impact in Hainan Island as well, however, with our assumption from Q2, sell-in will likely return to growth.

Hirofuji [M]: Thank you. Another question from online. Hirozumi-san from Daiwa Securities.

Hirozumi [Q]: 2024 H1 or Q1 consolidated core operating profit, how do you see the numbers?

Yokota [A]: We don't disclose the forecast of the core OP on a quarterly basis. But as mentioned earlier, China, the treated water impact has bottomed out by the end of 2023. But up to Q1, they will still have that recovery trajectory. From Q2, that's when the full recovery would be captured.

Travel Retail to Q1 is mainly the impact from Hainan Island impacting the sales to be negative or minus. For H1, I would say that the sales would be lower than H2 in our outlook. Within that, the profit balance or when we look at the profit balance, four to six. H1 is about 40% of the JPY55 billion, and the rest, 60% will come in H2. That is how we forecast.

On a quarterly basis, there are some kind of time phased or spending lags on the quarterly basis. But in the best estimate of the halves, H1 and H2, that is what I would say.

Hirofuji [M]: Next, Ohana-san from Nomura Securities.

Ohana [Q]: The 2025 core OP margin, 9%. beyond that, with the 15%, how much improvement will there be for gross profit? I understand that there will be a rebate impact or implications. This business is originally with a high gross margin level. I would like to hear in more detail about the percent activities to reduce the SG&A cost.

Since SG&A cost reduction will be the large proportion of the structural reform impact. What is linked to this JPY30 billion, which is a nonrecurring item?

Yokota [A]: At the moment, our initial assumption for the gross margin, it was 21% under the SHIFT 2025, but the current assumption is 22% targeting 2025.

However, 1% out of22% reflects accounting reclassification. Therefore, we will have an effect of maximizing gross profit despite a decline in sales. Additionally, the impact of our actions for productivity improvement will drive 21% in real terms if we exclude the impact of accounting.

Ohana [M]: What is linked with this JPY30 billion of nonrecurring items?

Yokota [A]: The breakdown of the JPY30 billion is not something I can share with you. But as Mr. Fujiwara also explained earlier, JPY40 billion saving coming from the cost of goods sold, and other costs arising from marketing, and samples, and also SG&A, and productivity improvement related to human capital. JPY27 billion out of JPY30 billion will derive from the structural reforms. Using this, we would like to achieve JPY40 billion in two years.

Hirofuji [M]: If there are other questions from the venue, we would like to go for a second round. If there's any questions from the venue in physical attendance. Okay. The person with the scarf.

Kuwahara [Q]: Thank you for giving me a second opportunity. This is Kuwahara from JPMorgan. In the late end of December, you had announced the global transformation. By 2025, you won't be done. In 2025, it will be a continued structural reform and et cetera. What I would like to ask is what is the ideal fixed cost ratio in the midterm? If you have an ideal fixed cost ratio, I would like to know.

You mentioned about the SG&A being high, so that you can mention it through SG&A ratio. But in the midterm, to what level do you want this number to drop? Where are you, Fujiwara-san or Yokota-san, feel is ideal? To what number would you like it to drop so that Shiseido becomes even more competitive? If you have a specific timing, you want to achieve it by, please share that with me as well.

Fujiwara [A]: First of all, the ideal is 15%. What we need to cover is some marketing and investment. That's something that we definitely need to have. 15%. In order to achieve our target 15% gross profit and gross margin, how much can we maximize that? That's something that we would like to do and improve on the SG&A, as I mentioned earlier.

As one of the milestones will be the OP of 9% is how I feel, and that is through the Japan's structural reforms and China and Travel Retail, to do a business structure reform matching to the current situation to kind of reset itself at a new start line. From there, for the headquarters, from there on, it won't be a global business structural reform led by the headquarter. I think it will be more of a continuous and sustained structural reform done by each of the regional category.

In terms of price strategy, that is something that we have mentioned earlier, but not only that, for example, organizing or optimizing the SKUs, we have been having these discussions, one-off discussions separately, but it's been a global SKU rationalization or the SG&A. This is the direction that we have, and this is the way of thinking for SG&A. I wouldn't say that everything would go as I am mentioning. But in initiatives, as a global agenda, we will have these global agenda as well to achieve the 15%.

Kuwahara [Q]: 64% in SG&A ratio is one of the numbers, I think, as a benchmark, if I were to calculate based on what you have mentioned. Now, as you look at it by region, from your perspective, what region do you focus on most? For example, Japan, do you have to focus on Japan the most in terms of cost structure?

Company Representative [A]: Yes, Japan. In terms of cost structure, up to 2025.

Kuwahara [Q]: Understood. So, after 2025, each region will have to work on different initiatives. Is that right?

Fujiwara [A]: Yes, that is correct.

Kuwahara [M]: Thank you very much.

Moderator [M]: Next, the person sitting next.

Sato [Q]: Sato from Morgan Stanley. Thank you very much. Based on the assumptions for 2024 revenue, I have a question about Japan. This year there was a reopening. There's a growth of the high single digit in domestic demand. Locally, this year is going to be a mid-single digit. So regardless of inbound, you are expecting a mid-single digit growth in the local market in 2024, growing almost at the same pace as the prior year while the reopening effect will run its course.

So, I think you are factoring in benefits of your price strategy as well as new product launches. Can you give us a breakdown on the impact of the positive impact of the pricing, and also the new products such as inner beauty? Are there any elements that we can feel confident about as a driver for growth in the future?

Fujiwara [A]: Regardless of the impact of our existing or new products, when we made the plan for 2024 based on the strategy, we looked into the growth from the core brands and growth from other areas as a starting point. As for core brands, we are aiming to achieve double-digit growth and by looking at the trends in the last year, there is still the COVID-19 impact in the early part of 2024, so we are confident of achieving that target.

Meanwhile, we will work on the business transformation going for forward. To be more specific, we will streamline the SKUs, and we are going to mobilize the investment in full scale on a global basis. Some of the brands are actually set for minus growth, negative growth.

We will basically give a different color to our investment target for where the growth can be expected where we will shrink. That's the basis of our plan. Remind you that the inbound accounts for about over 60% versus the prior year. It's so early, but January and up today, February 9, the inbound growth has already been exceeding our expectation.

Sato [Q]: As for the brands to be discontinued. Are there any losses arising from there as part of nonrecurring items? The negatives that will derive from the non-recurring items such as the cost for returns will not be reflected on operating profit?

Fujiwara [A]: First of all, we are not considering of terminating any brands. What we need to do in the brands in Japanese market, we will not try to grow in every brand and every SKUs. For the core brand, there's the cleansing and lotion. Across the brand, we'll try to capture consumers. But then in other brands, we will focus mostly on the hero SKUs. Other products may no longer be produced, or we may not add to the brand portfolio, so the brand will remain.

We will not terminate any brands. It will be more like we will sharpen our focus on brands rather than terminating any. With regard to reduction of SKUs, we were looking to the right timing of terminating an SKU because there are some existing consumers. We will try to notify the consumers at an early stage so that we'll be ready and the consumers will be ready towards the end of the fiscal year so that we will have no returns.

Sato [M]: So, costs associated with such process will not be reflected on non-recurring items, is that correct? They will be reflected on core operating profit.

Yokota [A]: Are you talking about returns?

Sato [M]: Yes, that may be part of it.

Yokota [A]: No, we are not taking that into account.

Sato [M]: Understood. So, it means that we should understand that simply the trends in net sales will be the key factor for estimating operating profit in Japan going forward. Thank you.

Hirofuji [M]: Okay. We would like to take the last question.

Oliver [Q]: Oliver from CLSA. Maybe I will ask the question in Japanese.

This year's profit guidance, from my perspective, I feel like I'm confident that you will be able to achieve what you have in guidance. Let's say if you have a profit of JPY10 billion to JPY20 billion, how do you look at the marketing expense?

For example, there may be FX impact, of course, and China could make a big comeback. If that is the case, then the marketing expense, would you increase it? Or would you just control it at the current level? And if there is additional profit, would you return that to shareholders?

Fujiwara [A]: The CFO and I may disagree in the answer to this question, but our business has to grow. Yes, if we see areas of growth we should continue to invest, but I believe that there is no point of investing in a place without any strategic ideas.

I may not have answered to your question. But if we truly believe know that we can grow, I would like to make additional investments in that area even if there is a slight risk for it. I have been discussing on that issue with the CFO, and I think he might disagree with me on some points. What do you think, Mr. Yokota?

But the CFO may disagree with me, and I'm sure there will be discussion with the CFO, I may not be approved, but what would you like to say Yokota-san?

Yokota [A]: We actually have been in discussions with each region on a monthly basis, to find out trends and where we have positive momentum with. I truly believe that we drove significant growth in Drunk Elephant as a result of our agile decisions to scale up our investment there.

But of course when we know there is opportunity for growth, and we believe we can succeed, then I agree that we should capture such opportunity by making investment. Fujiwara-san and I will continue discussion with the regions on a monthly basis for making such decisions.

Hirofuji [M]: With this, we would like to close the Q&A session. Now, we would like to have a closing message from Mr. Fujiwara, the COO.

Fujiwara [M]: Everybody, thank you so much for your participation and attendance. As we have explained in our presentation, we are fully committed to fully execute the business transformation in the next two years. Japan, China and Travel Retail, and some other regions, there are certain areas of challenge, but that is something that we will definitely commit to as a company to turn around.

At the same time, our business is not going to turn around just through cost restructuring, so we will continue to grow as a business, as a company. We look forward to, we will do our best to present you with happier news and brighter news, and we are fully committed as management. Once again, thank you very much for your attendance and participation.

Hirofuji [M]: Thank you. With this, we would like to close the Shiseido's business presentation. After this, we will be sending you a survey of the session from the IR division. We would love to get feedback from you so that we can leverage to enhance and better our session going forward.

Once again, thank you very much for your participation and attendance today.

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