Shiseido Company, Limited

2024 Q1 Financial Results Briefing

May 10, 2024

Event Summary

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[Venue]	Webcast
[Number of Speakers]	3

Kentaro Fujiwara	President and COO
Ayako Hirofuji	Deputy Chief Financial Officer
Yuki Oshima	Vice President, Investor Relations Department

Presentation

Oshima: Thank you very much for joining us for Shiseido Q1 2024 results briefing. We'd like to extend our appreciation for the investors and analysts, and the disclaimer for today's briefing is as displayed on the screen.

Now I'd like to introduce the presenters for today's session: Mr. Kentaro Fujiwara, the President and COO, and Ms. Ayako Hirofuji, the Deputy CFO. My name is Oshima from IR Department, I'll be serving as a facilitator for the briefing today. Nice to meet you all.

Today, we would like to explain about the progress of business transformation and also the outline of the business results, and later, we will take questions. We plan to close the session by 18:30 Japan time. Mr. Fujiwara, please start.

Fujiwara: So, first of all, as we have already announced on April 24, Mr. Yokota, the current CFO, will step down at the end of June due to personal reasons. From July 1, Mr. Yokota will be succeeded by Ms. Hirofuji, currently Chief Investor Engagement Officer and Chief DE&I Officer, who assumed the position of Deputy CFO in May.

Since joining the company in 2005, Ms. Hirofuji has served the company in various capacities, including Corporate Planning, President of Overseas Subsidiaries, Vice President of Strategy and Finance Department, Vice President of Investor Relations Department, and from this year, Chief DE&I Officer. She is very well versed in the company's global expansion and reform practices.

And Mr. Yokota has been CFO since January 2021, and has made many accomplishments during the difficult times, including the COVID-19 crisis. We will ensure a smooth handover and aim to achieve sustainable profit growth and build a resilient business structure in 2024. We will complete our business transformation under the new structure while attaining growth and structural reform.

As for the FOCUS project, renewal of our general core system, which Mr. Yokota has been leading, its implementation is almost complete, and we are now entering the value creation phase through the introduction of a new core system. I will lead this project directly as COO.

I would like to start by inviting Ms. Hirofuji to say a few words.

Hirofuji: My name is Hirofuji and I will assume the position of CFO in July. I'm strongly aware that Shiseido is now in a very important phase to establish highly profitable structures. This is restructuring in Japan and in other countries and regions. I would also like to support, from the finance aspect, Shiseido's strong desire to further strengthen the core areas through further selection and concentration to achieve sustainable growth, as stated by our COO, Fujiwara.

In addition, we have had many direct dialogues with investors and analysts in the capacity of investor relations. We deeply appreciate your expectations for the future of Shiseido, and we are committed to feeding back your insights into the management of our company.

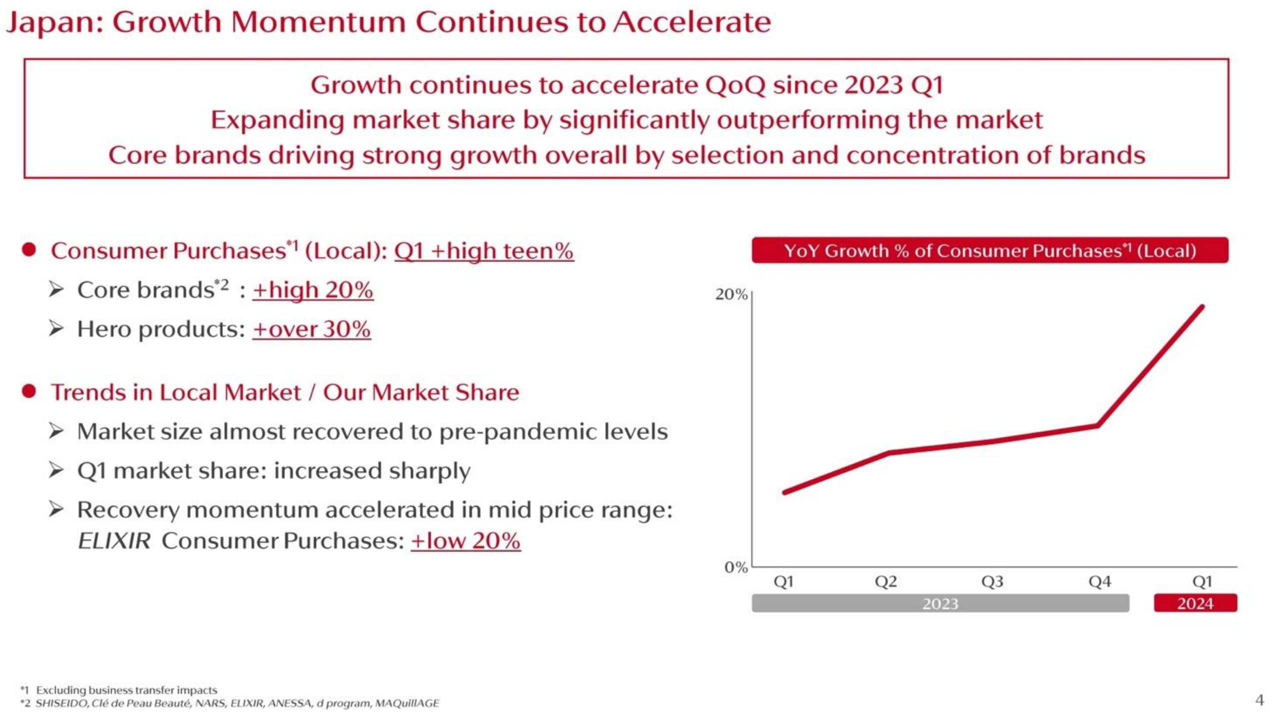
The strategic framework of Shift 2025 remains unchanged. We will accelerate growth by aggressively investing in our brand, human resources, and innovation, and we will achieve business recovery as soon as possible by streamlining costs, to ensure that we will earn your trust.

Fujiwara: Thank you. Then I would like to explain about the progress of the reform. First of all, in Q1 2024, we made a good start as we achieved YoY net sales growth of +3% on a Like-for-Like basis and core operating profit of JPY11.3 billion, despite an environment in which some effects of treated water release and inventory adjustments remain in the China and Travel Retail Businesses.

The highlights include the steady implementation of structural reforms, the recovery of market conditions, and the increase in market share in Japan local and prestige category in China thanks to strategic marketing investments to firmly maximize the recovery. There's no change to our full year forecast.

Deputy CFO Hirofuji will explain the rationale behind ours forecast later. In the rapidly changing and a complex market environment, we will maintain our strategic focus on agility through fixed cost reductions while maintaining investments for long-term growth, and on capturing market share by fostering brand value. We will continue our commitment to maximize profitability in Q2 and beyond, while maintaining our strategic focus, as mentioned above.

In the following sections, I will explain the status of our Japan, Travel Retail, and China Businesses in more detail as they will be at the core of our structural reforms.



In the Japan Business, growth has accelerated every quarter since last year. And in Q1, we achieved growth well above market and increased our market share.

In particular, our core brands, which have been a large shift in investment, have achieved growth in the +high 20% range, while our hero products have achieved high growth of over 30%, leading overall growth. We will continue to accelerate effective sales generation through well-balanced investment allocation.

We are also very encouraged by the accelerating growth momentum in the mid-price range in Q1. As people resume meeting others and enjoying themselves, such as cherry blossom viewing without masks, we see an increase in their aspiration to take care of the skin or put on nice makeup since they will meet other people. We believe that ELIXIR which posted high growth of +low 20% in Q1 will continue to bolster the overall mid-price market.

I would like to provide the details behind the strong growth in Q1 which I mentioned earlier.

In the Japan Business, where we are building a new growth model, our focus is on our core brands in terms of brand strategy. Our core brand, SHISEIDO and Clé de Peau Beauté, are growing at a high rate of over 40% and 30% of local customer purchases, respectively.

We are building a foundation for sustainable growth by steadily increasing the number of loyal customers. We are also focusing on creating new markets. In the new category of foundation serum, our company-wide challenge in Japan during the period, two products have already been launched in Q1 already contributing to 6% of Q1 revenue growth in the Japan Business, and further growth is expected as TV commercials have been launched since April.

In the ELIXIR, we launched Total V Firming Cream in H2 of last year, which leads to creation of the anti-sagging market. Since the launch, it has maintained a top market share with strong sales growth. In addition, we raised their prices of SHISEIDO and Clé de Peau Beauté in April, but the volume decline after the price revision has not been as significant as expected, and we have confirmed that demand is very firm.

Next, as a touchpoint strategy, we developed a free experience model in the drug store channel, which will change the way the stores and shelves are built and improve them into easy-to-understand shopping areas with fewer and more carefully selected SKUs to achieve higher sales growth. With the success of the pilot project launched last year, we will embark on a full-scale rollout at a little more than 3,000 stores centering on mainstay stores this year.

In addition, e-commerce sales in Q1 were in the high 20% range, significantly accelerating from lower 10% growth in FY2023. Going forward, we will continue to advance three strategic plans to achieve e-commerce ratio of 30% by 2025.

Our first strategy is to strengthen Retail.com, which integrates offline and online sales. This will be achieved through our Omise+ service, which allows offline customers to freely make purchases online, thereby improving LTV such as through continued use of the brand. Second, we will aggressively expand into Pure Players, aiming to meet more new customers, and finally, we will strengthen Owned.com . In July this year, we will revamp the design and functionality of the Watashi+ platform to further strengthen the relationship between consumers and our brands to achieve sustainable growth.

Japan: Progress on "Mirai Shift NIPPON 2025"

Sustainable growth, building a profitable foundation, and human capital transformation
Early retirement incentive plan implemented in Q1 2024, accelerated business transformation

- Human Capital Transformation & Productivity Enhancement
  - Early retirement incentive plan (ERIP): 1,477 applicants; approx. ¥18.0 bn of structural reform expenses in non-recurring items recognized in Q1
  - Optimization of organizational structure and work styles: strengthen reskilling, investing in human capital, and creating consumer-centric value
- COGS
  - Improved brand mix by focusing on core brands
  - SKU rationalization
  - Strategic price increase
- Marketing and Other Expenses
  - Promote optimization of variety and quantity of marketing promotional items
  - Streamline current IT systems

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The progress of structural reform is shown on page 6.

In order to transform ourselves into a new growth model, we have implemented Human Capital Transformation, Mirai Career Plan. And I would like to explain about our thoughts and approach to the business transformation.

The necessity behind this reform is that we have strong conviction that we must build a structure that enables the Japan Business, the mother market of Shiseido to generate stable earnings and value, and an organization that enables our employees to thrive and play active roles.

To this end, we felt that the Japan Business needs a transformation instead of simple cost reduction, and defined sustainable growth, building a profitable foundation, and human capital transformation as pillars of our transformation.

In addition to narrowing down our focus to core brands, we strengthen investments focusing on hero products and create new markets to achieve sustainable growth. As I explained so far, we have continued to deliver solid results in Q1.

In terms of building a profitable foundation, by concentrating on brands and touchpoints, we have significantly improved the OP margin through revenue growth as well as cost optimization and efficiency as compared to last year, generating a good cycle.

And we have another objective of human capital transformation. To achieve business transformation, we need to change the way we work and the skills we possess. We have identified the capabilities required invested in human capital, such as reskilling for employees who will work with us and implemented an early retirement incentive plan for those who chose to pursue their future career outside the company.

The application period of the early retirement incentive plan has ended and we have 1,477 applicants as a result. I explained, the impact of this plan is expected to be JPY10 billion in two years, of which JPY3 billion is expected to be realized in Q4 FY2024.

To follow up the progress on cost efficiency improvement initiative incorporated in our plan for establishment of profitable foundation, COGS was reduced by about JPY1 billion already due to improved product mix by focusing on core brands. By improving the mix and promoting SKU optimization, we aim to further expand earnings through growth.

In terms of marketing and other expenses, streamlining sales promotion materials will begin in H2, while the benefits of reviewing IT systems already realized since Q1, and other expense savings will likely be realized in Q4.

These reforms will not be easy, nevertheless, we are determined to carry out these reforms with strong conviction that they are necessary for Shiseido to continue to stock in the future. With the key message that there is nothing that cannot be changed, that we will continue to work, and so that the Japan Business will transform itself as an organization to be able to create the new future of Shiseido, an organization not being afraid of change.

Next is about Travel Retail Business. Retailer inventory adjustment is on track as planned. And inventory levels in Korea, Hainan Island, have already been normalized by the end of last year and the end of Q1, respectively. We expect monthly shipment sales to turn positive from May. Future growth will be achieved by optimizing inventories and returning back on sales growth trajectory focusing on tourists. We plan to raise the sales ratio of travelers to 70% or 80% level in 2025. We will also promote more stable growth and profit generation by strengthening sales in Japan, Europe, and the US.

China: Progress on Strategic Actions

Building a sustainable profit delivery business model in a moderately growing environment to emphasize quality growth

- **Growth Strategy**
  - Delivering steady results by strategic investments in key focus areas
    - Q1 Consumer Purchases: high-prestige brands[*1] +high single digit%   *NARS* +low 20%
    - Market share: expanded in our prestige category
    - International Women's Day promotion (EC): delivered YoY growth overall
      - TikTok: over 2x overall, prestige category: over 6x
      - Prestige: *Clé de Peau Beauté* and *NARS* outperformed the market, *SHISEIDO* returned to growth
  - Accelerate brand equity enhancement
    - *SHISEIDO* and *ANESSA* : campaigns in April, *Drunk Elephant* : launched in April
    - The impact of treated water release to be receded; strategically appeal our technological advancement, trust and safety
  - Adopt to diversified digital platforms, localize value creation
- **Operational Reforms**
  - Structural optimization: achieve greater agility through reduction of fixed costs
  - Streamlining offline bases and doors: closure of unprofitable doors; Q1 progress rate over FY plan: 15%

*1 *SHISEIDO* Future Solution, *Clé de Peau Beauté*, *THE GINZA*

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Next, let's look at the Chinese business. Even with the moderate market growth, reforms are underway that will enable stable growth and profit generation by identifying growth areas and making focused investments.

We feel that market in China is changing faster and faster. That is why I'm pleased that we have been able to move quickly to optimize our organization. Even amidst such volatility and uncertainty, we have been able to protect our profitability by maintaining a lean organization and a disciplined approach to investment.

Our focus area, high prestige, grew +high single digit%; NARS grew +low 20%. As a result, the Group as a whole was able to increase its share in the prestige market in Q1.

In International Women's Day promotions, we achieved strong sales with over 2X growth on TikTok overall, a growing e-commerce platform, which was due in part to the launch of a new brand, and over 6X growth achieved in sales of our prestige category, outperforming the market with Tmall, JD and TikTok combined. In order to achieve even higher quality growth, we have launched a campaign in April to communicate our brand value for SHISEIDO and ANESSA, and also Drunk Elephant has fully launched in China in April.

Meanwhile, we have been working on an operational reform since last year, in line with our growth strategy. The organizational structure is transformed to the one steadily adjustable to cope with market changes and offline stores are being optimized to improve productivity.

Making Steady Progress in Global Cost Reduction and Profit Boosting

The Global Transformation Committee enhanced execution monitoring
Accelerating initiatives to realize the effects of ¥15.0 bn+ in 2024;
Contributing to profitability from Q1 onwards

- Q1 Key Actions
  - Japan: COGS reduction by focusing on core brands and hero products; the implementation of ERIP
  - China: optimization of organizational structure; COGS reduction; closure of unprofitable doors
  - Global: employee productivity improvement

(Billion yen)

	2024	2025	Total
Japan	8.0	17.0	25.0
COGS	3.0	2.0	5.0
Marketing and Other Expenses	2.0	8.0	10.0
Human Capital Transformation & Productivity Enhancement	3.0	7.0	10.0
China	5.0	3.0	8.0
Travel Retail	1.0	1.0	2.0
Asia Pacific, Americas, EMEA, Other (Global HQ)	1.0+	4.0+	5.0+
Total	15.0+	25.0+	40.0+

The cost reductions being promoted as part of the global transformation are based on the action plan that exceeds annual targets. This ensures that, even if the impact of each action falls below expectations, the execution of additional actions will invariably achieve the target. Each task force team continuously updates the forecast of effects and the list of actions, managing progress across the entire company. For the first quarter, we generated an effect of approximately JPY 3 billion.

In addition, we have already started the initiatives to improve the employees' productivity worldwide. The benefit of this initiative will be realized mainly from H2 onwards.

We will continue to accelerate company-wide efforts to deliver over JPY15 billion in 2024 and over JPY40 billion in 2024 and 2025 to ensure these will be converted into profits.

That is all for me. Thank you. Next, Mr. Hirofuji will report on Q1 earnings.

2024 Q1 (January–March): Executive Summary

(Billion yen)	2023	% of Net Sales	2024	% of Net Sales	YoY Change	YoY Change %	YoY FX-Neutral %	YoY LfL*2 %
Net Sales	240.0	100%	249.5	100%	+9.4	+3.9%	−2.7%	+3.2%
Core Operating Profit	12.5	5.2%	11.3	4.5%	−1.2	−9.6%		
Non-recurring items	−2.0	−0.8%	−20.1	−8.0%	−18.1	-		
Operating Profit	10.5	4.4%	−8.7	−3.5%	−19.3	-		
Profit Before Tax	10.3	4.3%	−3.8	−1.5%	−14.1	-		
Income Tax Expense	1.1	0.5%	−0.7	−0.3%	−1.9	-		
Profit Attributable to Owners of Parent	8.7	3.6%	−3.3	−1.3%	−12.0	-		
EBITDA*1	24.9	10.4%	24.4	9.8%	−0.4	−1.7%		

Net Sales: Japan local delivered robust growth driven by selection and concentration of brands
Americas and EMEA continued strong momentum
Sales declined in China due to the lingered treated water impact and in Travel Retail amid ongoing retailer inventory adjustments, but the negative growth steadily narrowing

Core Operating Profit: The impact of sales decline in Travel Retail largely offset by other regions

Non-recurring items: Recognition of structural reform expenses of early retirement incentive plan

EBITDA: EBITDA margin 9.8%

*1 Core Operating Profit+Depreciation and Amortization (excl. depreciation of right-of-use assets) *2 Excluding the impacts of FX, business transfer and the acquisition of *Dr. Dennis Gross Skincare*

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Hirofuji: Now, I will explain our business results for Q1 FY2024. First of all, please take a look at the summary of P&L on page 11.

Sales grew 3.2% YoY on a like-for-like basis, with a negative growth in China and Travel Retail steadily narrowing, while steady growth seen in Europe and the US and Asia Pacific and momentum accelerating strongly in Japan.

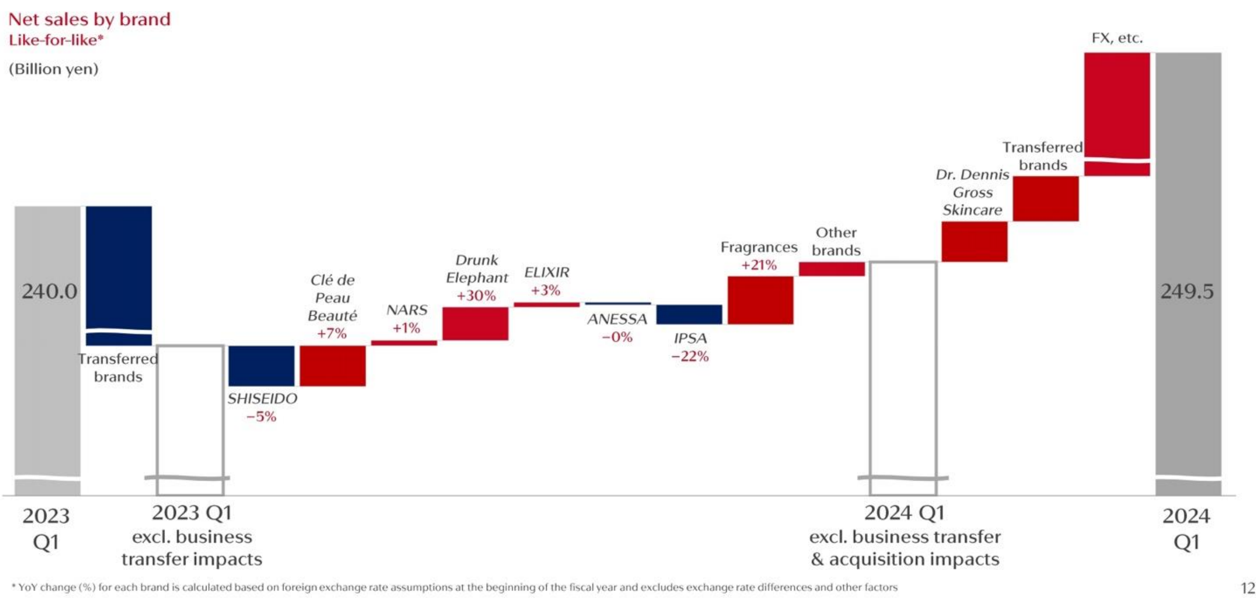
Core operating income decreased by JPY1.2 billion to JPY11.3 billion. Given that the previous year's annual profit was JPY 39.8 billion, of which JPY12.5 billion was earned in Q1 which was quite high, profit declined YoY as a result. However, we had a good start as we still exceeded the target for the quarter. The impact of lower sales in Travel Retail was more than offset by the increase in profits in Japan and other regions.

Operating income was a loss of JPY8.7 billion, a decline of JPY19.3 billion from the previous year. As Mr. Fujiwara explained, we recognized provision of about JPY18 billion in Q1 for structural reform expenses for the early retirement support plan. At the time of the disclosure on February 10, we expected to recognize it in Q2. However, since the number of applicants has been fixed to finalize our estimate for the amount of provision, we have decided to recognize it in Q1.

Profit attributable to owners of the parent company decreased by JPY12 billion from the previous year to a loss of JPY3.3 billion. This is due to the fact that JPY20.1 billion out of the JPY30 billion in nonrecurring items was recognized in this quarter. We expect both operating income and the quarterly profit attributable to owners of the parent company to return to profitability from Q2 onwards.

In terms of cash-generating ability, EBITDA margin was 9.8% compared to the annual plan of 11%.

Clé de Peau Beauté, Drunk Elephant and Fragrances Delivered Robust Growth



Next, on page 12, sales results by brand. In Q1, SHISEIDO had negative growth in China and Travel Retail due to the lingering impact of treated water release and retailer inventory adjustments. However, despite these circumstances, the strong presence of the Clé de Peau Beauté as high prestige brand contributed to sales overall by achieving +7% growth YoY. Drunk Elephant also continued to perform well, growing 30% from the more than doubled growth in Q1 of last year.

The fragrance brands also achieved strong growth, Narciso Rodriguez leading the overall growth. ELIXIR also achieved positive growth with double-digit growth in Japan, contributing to the overall growth although being affected by negative growth in China. ANESSA also grew in Japan and China but was impacted by inventory adjustments in Travel Retail, resulting in flat sales YoY.

Japan: Delivered Robust Growth Led by Core Brands
China and Travel Retail: Negative Growth Steadily Narrowing
Americas and EMEA: Continued Strong Momentum

Like-for-like*	2023 (vs. 2022)					2024 (vs. 2023)
	Q1	Q2	Q3	Q4	FY	Q1
Japan	+8%	+9%	+6%	+17%	+10%	+20%
China	−3%	+20%	−9%	−21%	−5%	−3%
Asia Pacific	+16%	+12%	+15%	+8%	+13%	+5%
Americas	+30%	+18%	+10%	+9%	+15%	+9%
EMEA	+22%	+11%	+15%	+26%	+19%	+17%
Travel Retail	−4%	−4%	−25%	−43%	−20%	−31%
Total	+7%	+10%	−2%	−6%	+2%	+3%

* Excluding the impacts of FX, business transfer and the acquisition of *Dr. Dennis Gross Skincare*

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Next, on page 13, sales trends. In Q1, sales returned to growth overall. Net sales in China and Travel Retail fell below the levels in the prior year as expected, but was largely offset by growth mostly coming from Japan, the Americas, and EMEA.

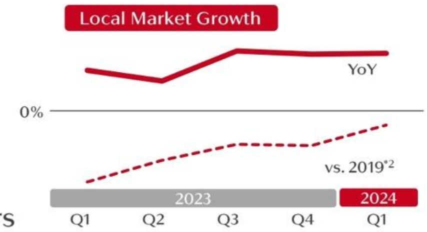
The biggest highlight was Japan's high growth of +20%. The business transformation initiatives such as brand selection and concentration, as well as strategic investment allocation are all leading to steadily results, delivering strong growth primarily led by core brands. We have announced price increases in Japan this year, the effects of which are expected to be felt from Q2 onward.

In this Q1, we achieved a high growth rate of +20% due to the impact of pure volume increase, including the rush demand before the price increase. The trend up to April and May so far suggest that the volume decline after the price hike will not be as large as expected.

In China and Travel Retail, although growth is still negative due to the impact of treated water release and retailer inventory adjustments, the negative growth rate is steadily improving. In addition, EMEA continues to perform well. EMEA, in particular, has achieved double-digit growth for five consecutive quarters since Q1 last year.

Japan: Delivered Robust Growth by Strategic Marketing Focused on New Market Creation, Driving Share Gains Fueled by Core Brands

- Q1 market:
  - Local:
    - Recovery overall, approaching to pre-pandemic levels
    - Recovery accelerated in middle-price range
    - Makeup category drove growth overall
  - Inbound: Recovery trend continued amid rebound in travelers



- Shiseido Consumer Purchases*1: Q1 +low 20%
  - Local : +high teen%
    - *SHISEIDO* : +over 40%
    - *Clé de Peau Beauté* : +over 30%
    - *ELIXIR* : +low 20%
    - *ANESSA* : +high single digit%
    - EC : +high 20%
  - Inbound : +over 40%

SHISEIDO

ELIXIR

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

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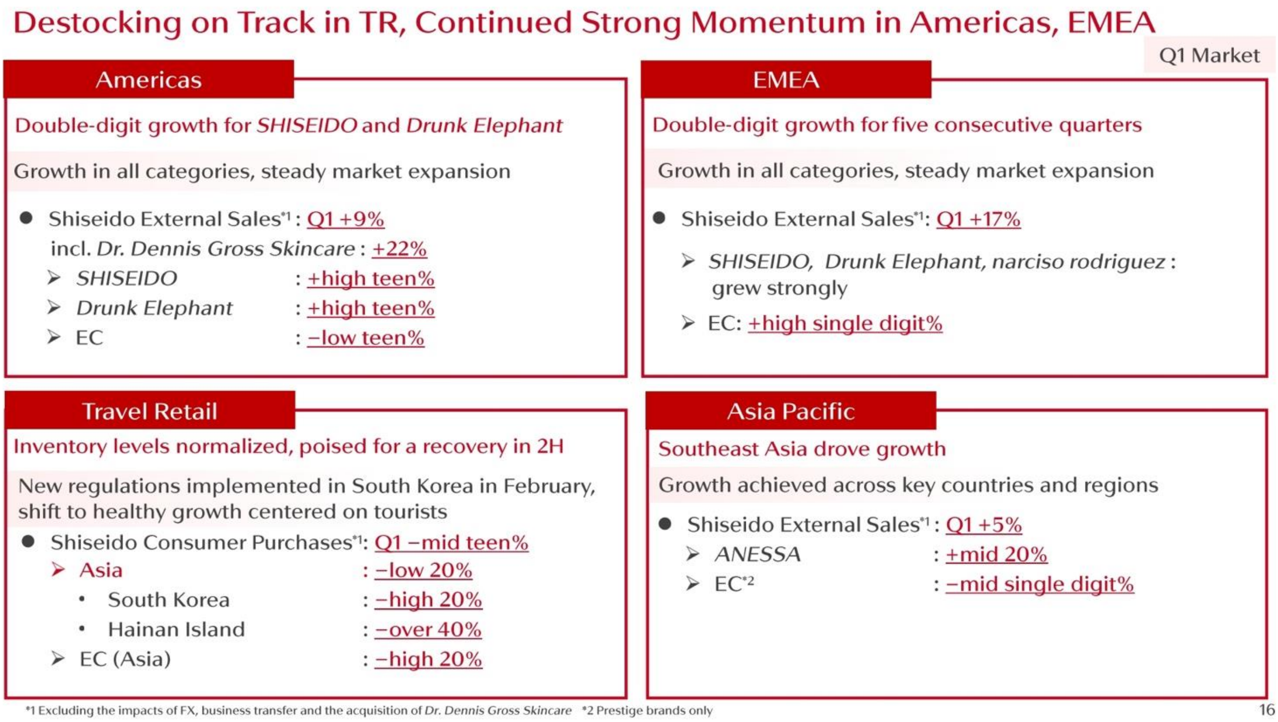
Pages 14 and 15 are about our Japan and China Businesses, but since Mr. Fujiwara has already explained some of the key strategic points, I will simply focus on data for these two segments.

First, let's look at Japan. As shown in the dotted line graph, the scale of the local market as a whole returned to almost pre-COVID-19 level. The good news is that YoY growth momentum in the mid-price segment is accelerating.

On the other hand, it is also true that the mid-price segment is the one with the most significant negative growth compared to 2019, even in Q1 of the year. We will accelerate the initiatives that are currently yielding positive results further to make turnaround from this point.

Next, in China, we saw negative growth as expected, but the strong performance of Clé de Peau Beauté and NARS brands that we see as offering the best return on investment in the current environment contributed to share expansion in the prestige segment.

The brand SHISEIDO also had the largest and longest lasting effect of treated water release, but we will continue to implement measures to achieve a turnaround from Q2 onwards.



Page 16 shows the four regions. For Travel Retail, as I explained, we have been working to optimize inventory levels since last year. And with our priority restricting shipments with strong determination, as a result, the channel inventory has been optimized, and we expect a full-scale recovery in H2 with the solid shift to a healthy business model focusing on travelers.

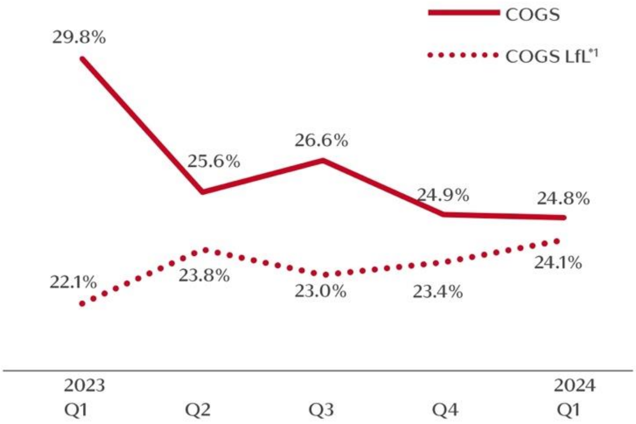
In the Americas, double-digit growth achieved by brand SHISEIDO and Drunk Elephant contributed to overall growth of 9%, and 22% with Dr. Dennis Gross Skincare included.

EMEA also maintained strong growth led by SHISEIDO and Drunk Elephant, as well as fragrance category, Narciso Rodriguez. In Asia Pacific, the growth was driven by Southeast Asia, especially by Thailand.

We will continue to accelerate growth in Americas and EMEA and balanced regional portfolio as a mid- to long-term initiative, rather than a quarterly-based approach. With respect to fragrance category, which shows a good momentum globally, we will implement initiatives to maximize business opportunities.

COGS LfL Ratio: Increased Due to Higher Inventory Write-offs; Expect to Improve from Q2 Onwards with Recovery in China and TR

	2023 Q1	2023 Full Year	2024 Q1
COGS	29.8%	26.7%	24.8%
COGS LfL[*1]	22.1%	23.1%	24.1%



Q1 YoY COGS analysis

(+) Decline of the impact from MSA[*2] for business transfers (2023 5.9pts -> 2024 0.7pts)

(+) Impairment losses and structural reform expenses on transfer of Kuki Factory in 2023

(−) Higher allowance for excess inventory write-offs

(−) Unfavorable brand mix

*1 Excluding the impacts of business transfer impacts and impairment losses, etc. *2 Manufacturing Service Agreement

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Page 17 shows the COGS ratio. The solid line shows the value on reported basis in accounting and the dotted line shows like-for-like COGS ratio, the gap between the two, which used to be large in the past is narrowing as planned.

Special factors such as product supply due to business transfers, impairment loss, and structural reform expenses related to factory transfers are expected to be reduced this year, so the solid and dotted lines are expected to remain close to each other. A YoY increase in the like-for-like COGS ratio in the dotted line is 24.1%, which is attributable to increased excess inventory write-offs due to the slowdown in China and Travel Retail, and unfavorable brand mix.

After Q2, especially in H2, the product mix is expected to improve. Thanks to a decrease in excess inventory, full-fledged recovery in China and Travel Retail, and the impact of price increase in Japan are focused on the core brands and optimized SKUs.

We are working on initiatives seriously to reduce COGS, in order to achieve the targets set in the mid-term plan.

Impact of Sales Decline in Travel Retail Largely Offset by Higher Profit Achieved in Japan and Other Regions

Japan : Profit increased by higher gross profit from sales growth
China : Lower gross profit from sales decline offset by strategic investment and cost management reflecting market dynamics
Asia Pacific : Profit increased by higher gross profit from sales growth
Americas / EMEA : Profit increased by higher gross profit from sales growth
Travel Retail: Profit decreased due to lower gross profit from sales decline
Other: Declined by lower gross profit driven by the decline in intersegment sales to Travel Retail and China

(Billion yen)

Core Operating Profit (Core OPM)	2023 Q1		2024 Q1		YoY
Japan	−1.7	(−2.7%)	6.7	(9.0%)	+8.3
China	−2.1	(−4.0%)	0.1	(0.2%)	+2.3
Asia Pacific	0.4	(2.3%)	1.0	(5.5%)	+0.6
Americas	1.5	(5.5%)	3.6	(10.8%)	+2.1
EMEA	2.6	(8.8%)	4.2	(11.3%)	+1.6
Travel Retail	7.5	(19.4%)	3.0	(10.1%)	−4.5
Other	3.6	(4.5%)	−7.3	(−11.7%)	−10.9
Adjustments	0.8	-	0.0	-	−0.8
Total	12.5	(5.2%)	11.3	(4.5%)	−1.2

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Page 18 is about core operating profit by segment. First, the large decline in OP in other segment stands out and this is due to a significant decrease in intersegment sales to the Travel Retail and China Businesses. In the Travel Retail, which has the highest profit stability in the region suffered a decline in profit due to a large decline in sales.

Despite wage increase due to inflation and higher expenses for digital investment, we managed to limit a YoY decline in core operating profit to JPY1.2 billion on a global basis, thanks to higher profit as well as improvement in profitability in Japan and other regions.

The overall cost control and strategic allocation of marketing investment contributed more efficient and effective sales growth.

In Japan, the business transformation is steadily yielding results and measures are being taken to accelerate growth while lowering fixed costs, and structure is being formulated to retain profits from higher gross profit driven by sales growth. Thanks partially to the rush demand before the price increase, the profit margin of 9% in Q1 is higher than our actual capability, that we are making steady progress towards the target of over JPY20 billion for the full year.

In China, sales declined due to the impact of the treated water release, but early implementation of measures to optimize the organization and reduce fixed costs, and the organization is now in a position to respond swiftly to the rapid changing market environment. The Americas, EMEA, and Asia Pacific also posted higher profits due to higher gross profits from the revenue growth and cost efficiency.

While improving profitability in each region, we will further accelerate growth in the Americas, EMEA, Asia Pacific, and Japan local in order to optimize regional balance in terms of profitability.

2024 Forecast

The full-year forecast remains unchanged
Stay committed to maximizing profit and minimizing risks

(+) Continued growth momentum of core brands in Japan

(+) Maximize sales from inbound tourists

(+) Growth acceleration in Americas, EMEA and Asia Pacific

(+) Positive FX impact due to the weaker yen

(−) Changes in Chinese consumer sentiment and purchasing behavior
- China
- Travel Retail Asia
- Japan inbound

19

Finally, slide 19 shows 2024 forecast with the opportunities and risks.

The acquisition of Dr. Dennis Gross Skincare, which was not included in the results announced in February, was successfully completed in February. The sales impact on consolidated results for the current fiscal year is expected to be approximately JPY14 billion, with a limited impact on core operating profit.

Due to expenses specific to the first year and amortization cost on the intangible assets, contribution to profit this year would be minor, but it has double-digit EBITDA margin and plans to increase earnings by expanding the scale and internalizing the product production.

And other opportunities going forward includes continued momentum in Japan local market, which performed extremely well in Q1, especially for core brands, and maximizing sales for non-Chinese visitors in Japan, which already surpassed the 2019 level, and further acceleration of the growth in the Americas, EMEA, and Asia. In addition, there is also upside potential from foreign exchange translation due to the continued depreciation of yen.

Elsewhere, the changes in China's consumer sentiment and purchasing behavior will affect not only China Business, but also Travel Retail Asia, as well as inbound of Japan. There are opportunities, but seeing the risk at the moment, therefore, the full-year forecast remains unchanged.

We will continue our efforts to maximize our profits as much as we can with the initiatives to realize growth opportunities while minimizing risk.

Thank you for listening.

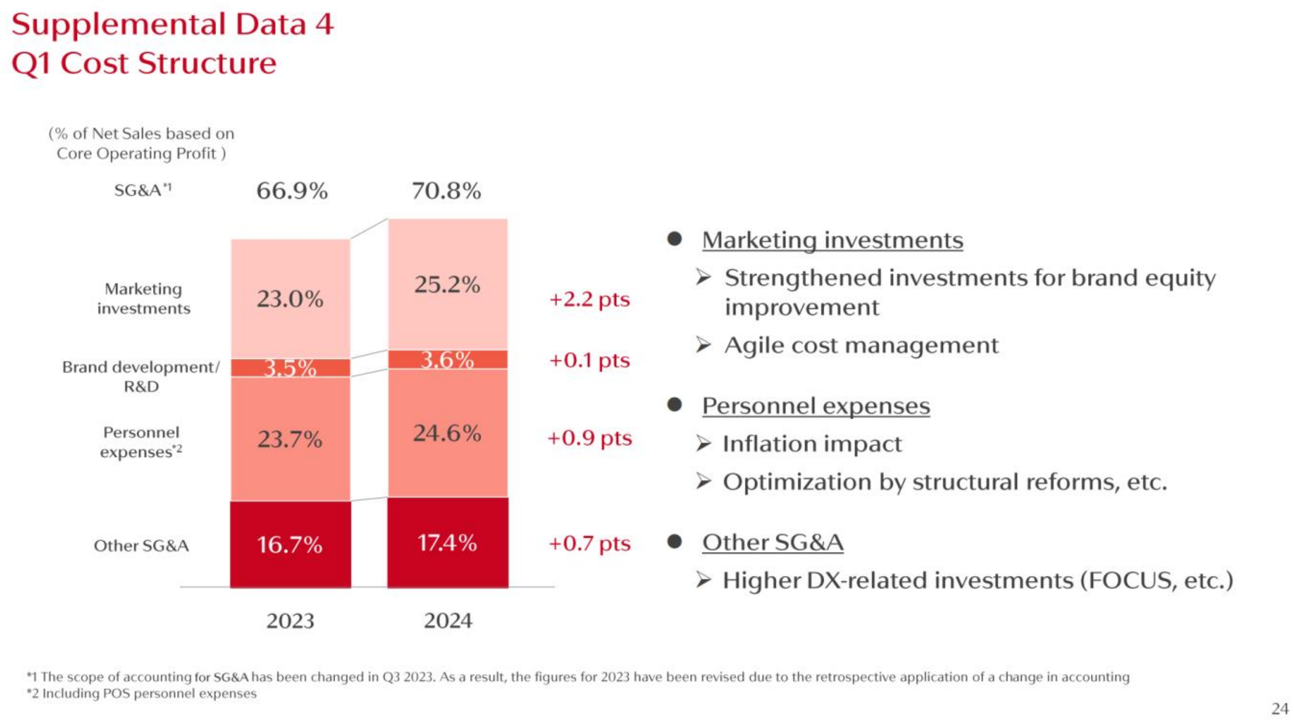
Question & Answer

Oshima [M]: Thank you very much. Now we would like to move on to question-and-answer session. To accommodate questions from as many individuals as possible, we kindly request that each person limit themselves to one question and keep it concise. When we go around all the questions, we will take a second round of questions.

Now we would like to ask Kuwahara-san from JP Morgan Securities to proceed.

Kuwahara [Q]: Hello. This is Kuwahara from JP Morgan. Thank you very much for your briefing.

Since only one question is accepted, so I would like to hear about the structural reform and Q1 performance. Now the core operating profit exceeded the target, as you mentioned. To what extent did it exceed? And what is the factor behind it? Is it the revenue or the profit margin, or the COGS or the SG&A cost?



And also in the appendix 4, page 24, in fact, the rate of the SG&A cost increased to 70.8%, but depending on how you look at it, so is the production of personal care business was separated and because of that, the COGS went down by 5 percentage points. So, it seems to be contributing to the good performance. So, it seems to me that the benefits of the structural reform this time is not so visible. If you think that is not the case, please explain in detail.

Hirofuji [A]: Then let me answer to your question. The core operating profit, JPY11.3 billion, exceeded few billion yen above the target. The primary reason for that is the overachievement in net sales in Japan Business, meaning that in Japan, the overachievement in sales targets has positively impacted profits. Additionally, it is due to the proper reinforcement of cost control amidst market uncertainty. Regarding the profits in China, which last year included some timing differences in expenses, out of the annual core operating profit of JPY39.8 billion, JPY12.5 billion was attributed to Q1. This resulted in a profit structure heavily weighted in Q1 due to the timing of costs incurred in China, leading to a year-on-year decrease of JPY1.2 billion in profits. So, core operating profit for Q1 were mainly driven by sales in Japan and profits in China.

Kuwahara [Q]: Thank you. What about the rate of SG&A? So, it's 70.8%. Now, is it better than the target? Or since it is Q1, maybe it tends to be high. Do you expect that this will continue to go down from Q2 onwards by strategic initiatives? Is that possible to think in that way?

Hirofuji [A]: Yes. That is correct. In regard to SG&A rate, there's no major gap with the plan or the target, but in terms of the comparison with the previous year in foreign currency, it is true that the impact of exchange rates has significantly inflated SG&A. So, that is also reflected in this SG&A increase. But there's not so much gap against the target and as Mr. Fujiwara said, going forward, we will proceed steadily with the structural reforms. So, from Q2 onwards, we would like to show a better result.

Kuwahara [Q]: Thank you very much. One last question, I would like to ask why Japan did so well, what is the reason behind Japan's performance exceeding expectations. Is it the creation of the new market or are there any other elements that's pushing up the good performance in Japan? I understand there was the last-minute purchase before the price increase, but what are the factors for Japan to perform so much better in Q1?

Fujiwara [A]: Then let me answer to that question. First thing, our growth strategy to focus on the core brands and they have steadily demonstrated growth, leading the overall growth of our business; in particular, brand SHISEIDO and also Clé de Peau Beauté grew significantly, these two have contributed significantly to growth through the acquisition of new customers, which I think is a positive factor. That is good news for us.

Meanwhile, there's a foundation serum, which will lead to new markets, and we managed to capture a good set of new customers. In fact, 80% of the sales of the foundation serum coming from new customers and about half of the customers in that category are in their 20s and 30s, turning out to be very successful before even starting TV commercials. Since April, we started TV commercials for a foundation serum, so going forward, we expect that there will be even more new customers. So, that we will continue to grow into the future.

Kuwahara [M]: Thank you very much. Very clear.

Oshima [M]: Thank you for the question. SMBC Nikko, Yamanaka-san, please.

Yamanaka [Q]: Thank you very much for taking my question. Yamanaka of SMBC Nikko.

Related to the previous question, about the global cost reduction plan, where it was explained that JPY3 billion was achieved in Q1, against the annual plan of JPY15 billion, considering that the effects of career support plan are expected to expand in 2H, I am thinking that achieving JPY3 billion in Q1 might be exceeding the plan. Additionally, although I believe the effects of the price increase have not yet been reflected in Q1, the impact of the price increase reflected in the COGS could be stronger than expected or your estimate is a little bit conservative, based on the explanation provided earlier. I would appreciate it if you can just give us some color on that within the scope of what you can share. Thank you.

Hirofuji [A]: Okay. First of all, I would like to talk about JPY3 billion impact by the global transformation, which is a little less than JPY3 billion, to be precise. Around 50% of that was driven by Japanese efforts and the remaining 50% by China and other regions. And COGS, there should be some adjustment in terms of the timing, but it does not mean that this JPY3 billion impact will continue into Q4. But at least in terms of the progress with our plan to achieve JPY15 billion for 2024 that has been announced, we are right on track. And GTC Committee, if there is an uplift or down lift, it's some ups and downs always be recognized, whenever there will be a shortfall, we are trying to compensate with other initiatives so that we will generate profit through these initiatives for the full year.

Yamanaka [Q]: Thank you. So, Q1, JPY3 billion is slightly above your original target?

Hirofuji [A]: Yes.

Yamanaka [M]: Thank you. How about the impact of the price increase after the second quarter? How would you reflect that on your forecast?

Hirofuji [A]: Regarding the price increases in Japan, as we have previously discussed, we are anticipating an impact of approximately JPY2 billion for this year. We expect this to emerge from the second quarter onwards. As of Q1, as I mentioned earlier in the presentation, there were some pre-sales, but looking at the progress so far, there was no reduction compared to the rush demand in Q1. So, as I indicated in the guidance, the opportunity must be maximized so we do not miss any opportunities. We are now keen to achieve that.

Yamanaka [M]: Thank you very much.

Fujiwara [A]: Allow me to add one thing. For Japan, Q1, there was the impact on the COGS. As I explained, the focusing on our core brand initiatives and brand and product mix are now contributing into the COGS improvement nicely, so this effort will continue. Then, after April, we will realize the price increase impact, then there should be some good momentum.

Yamanaka [M]: Thank you very much.

Oshima [M]: Thank you very much. Next, we would like to invite from Mizuho Securities, Miyasako-san.

Miyasako [Q]: My name is Miyasako from Mizuho. Thank you for this opportunity. So, overall, the business seems to be performing well. My question is to clarify the risks. Since Mr. Fujiwara is here, I would like to discuss China. It was mentioned that SHISEIDO is being affected by treated water. However, looking at Women's Day, a product very similar to ALTIMUNE called KANS has emerged, seemingly taking a significant share and causing poor performance. Clé de Peau Beauté's foundations and primers are selling very well, leaning heavily towards those products, and I believe NARS is also mainly selling foundations. Given the rapid pace of trends in China, the sales seem to be a bit unstable if a product like KANS appears again. Please correct if my understanding is wrong, but assuming that it is correct, I believe you are aiming for a 5% growth in sales over three years but what about the stability of the sales growth going forward? I am interested in how you plan to address this, especially since it also involves Travel Retail. I would like to hear your views on this matter.

Fujiwara [A]: Thank you for the question. So, one thing I can say is that in regard to brand SHISEIDO, we have launched a campaign from April. Due to the impact of the treated water release, unfortunately, there are some customers who moved away from the brand, but now they are starting to come back to the brand, and we hear such voices because they find other brands and products are not comfortable to use. It is a very good news and we would like to push these customers who are coming back to brand SHISEIDO, and we have launched a campaign for that since April. This is not a common campaign in China, such as Double Eleven or 618, but rather about conveying the value of our products, their effects and efficacy, and the value of our brand. The greatest value within our company lies in the comfort of use and the combination of various ingredients to maximize their effects. We plan to proceed with promotions and communications moving forward. We will communicate and promote those aspects, and the result of this promotion will, in the end, push up the effect of the large-scale promotions in June, to start with. So, according to the latest information, we are capturing a lot of new customers. In addition to that, when it comes to competition in Chinese market, in particular, the differentiation with the local brands in terms of the effect and the efficacy, the Japanese and also the European, the US brands, are in a better position, so we have launched a campaign focusing on cream, so that we will have sufficient differentiation with the local Chinese products or brands. So, we will launch some activities to enhance the brand value. Also, at the same time, in parallel, we will try not to deal with the major KOL and would launch the promotion in the right scale. Another point, the biggest, good news is that in Q1, we have faced a slight decline in the profit, but then as a result of the significant structural reform since last year, we are securing profit; meaning that even if there's a fluctuation in the top line, we have completed this pattern of business or the style of business in which the profit is always secured. Also, since the Chinese market is rapidly changing, when we find the right investment, then we will do so rapidly. But then if we find that some investment will not work, then we'll quickly restore from it so that we will secure the overall profit.

Miyasako [Q]: So, that means that you have launched a lot of cost control so that the profit went upwards?

Fujiwara [A]: Yes, that is correct.

Hirofuji [A]: About China profit, I would like to add some supplementary information. So, yes, it is the less revenue and a higher profit. The revenue went down, and the cost was controlled, but then the marketing cost was increased. So, apart from the marketing, we are tightening the cost, aside from marketing cost. So that's why, as Mr. Fujiwara said, although the revenue goes down, we can still secure profits.

Miyasako [Q]: What was the cost item that you controlled other than marketing?

Hirofuji [A]: It's back office related and also the human resources reform, which we already announced before, and we have already launched that cost control, and there's a good result on fixed cost reduction coming up from this.

Miyasako [M]: Thank you very much.

Oshima [M]: Thank you very much. Now CLSA, Oliver. Can you please have your question?

Oliver [Q]*: Hi. I'm not sure if you can hear me but let me go ahead. Congratulations, Hirofuji-san, on your role and very clear presentation. I have a question about Dr. Dennis Gross and the derma segment opportunity. Two things: one, how big an opportunity could this be for you longer term? Also, could you talk about the speed of the rollout? Because I think Drunk Elephant was a similar acquisition, but it did take quite a long time to get going, you're only just going in China now and maybe that was COVID-19. Should we expect you to be a bit faster for Dr. Dennis? Thank you.

Fujiwara [A]*: Thank you very much, Oliver. The first point is that for the opportunities of the derma category. We are very positive on having the big opportunity for derma because one, is that this is a growth category in the world, not just for the Americas, but also Europe and Japan and China as well. Thanks to acquiring the Dr. Dennis Gross, we fill it up to the good portfolio in the derma because of the past. I mean, we don't have any appropriate for the brands. So, I expect Dr. Dennis Gross is really capturing the market share and adding for the product growth in our business. The second point is about the pace of rollout. So, first of all, we are more focused on to the USA market, so this is very important to build up the strong fundamental in the whole market for the Dr. Dennis Gross. Then, of course, if there is the opportunity, we expect it to roll out to the other region, but not so urgent, or not so rush.

Oliver [M]*: Okay. Understood. Thank you very much.

Oshima [M]: Thank you very much. Next are from Mitsubishi UFJ Trust Bank, Hyogo-san.

Hyogo [Q]: Hello. This is Hyogo from Mitsubishi UFJ Trust Bank, thank you very much for this opportunity and briefing. In regard to the structural reform, there's good results in Q1, quantitatively reflected, according to the briefing. So, regarding the JPY40 billion for 2024, 2025, do you feel that there are some actions brought forward? That's my first question. Also, this may be a little too early to ask, but when the structural reform indeed brings the better profitability, will there be any change in your approach about policy for the shareholder return? Thank you.

Hirofuji [A]: Regarding the JPY40 billion for the Global Transformation Committee, to be honest, since we are still in Q1, it is difficult to assume at this point that we are significantly exceeding our target to achieve JPY40 billion and that we will continue achieving that ahead of the plan. So, we do have a little less than JPY3 billion in Q1, and we would like to continue with the good work, and also, in our tracking, so there will be both positive and negative deviations, and of course, there will be areas that fall short. Therefore, the primary goal of the Global Transformation Committee is to address these shortcomings. While we cannot promise to exceed the JPY40 billion target or to achieve our goals ahead of schedule at this point, ensuring the JPY40 billion target is secured is our first priority.

Based on that, regarding our capital policy, as we have been communicating, our aim remains unchanged: to achieve direct profit distribution and to realize total stock returns through medium to long-term share price appreciation. Furthermore, in terms of capital allocation, we consider the priorities to be growth investment, followed by M&A, and then shareholder returns. Regarding share repurchase, we plan to act flexibly, considering the market environment. Therefore, at this point, our primary focus is on ensuring the positive momentum of this quarter continues, and for that purpose, we will continue to make solid investment in marketing. By solidifying our growth momentum and based on the recovery of our performance, we aim to achieve stock price appreciation and shareholder returns. This is my current perspective.

Hyogo [Q]: Thank you. So you talked about the quantitative aspects as a follow-up. But in terms of the qualitative aspect of the structural reform and the company culture, do you have a sense that your employees are sharing momentum towards structural reforms and making progress ahead of the schedule? Mr. Fujiwara, what are your thoughts on this? Regarding the qualitative aspect, I would like to know the situation within the company regarding the commitment to thoroughly accomplish this structural reform, including fostering a sense of urgency.

Fujiwara [A]: First of all, about the Japan structural reform. With regard to the P&L, we explained in detail to our employees, so that our employees will understand why the growth cannot be attained even though the sales increases. So, we are explaining that thoroughly. So, we are supporting our employee understanding, how they can translate this target of structural reform into their day-to-day work. So, this is not a simple story or the top-down story of cost reduction of this or that items, so we are supporting our employees through frequent communication, that the meaning of the transformation is appreciated by the employees so that there will be a culture in place, so that there will be sustained transformation in place with the participation of our employees. Also, being able to drive the transformation in itself is a capability of the organization, and Ms. Hirofuji also mentioned to secure this JPY40 billion target as a result of the transformation. In the meantime, we will be working on adding 20% to our target. But when we face the tough times, then we will try to review the target. So, we are running the cycle of reiterating or reviewing our target, and the result of our actions on a monthly basis. So, we will closely monitor where we are, and we would like to also make our organization globally to be prepared for transformation.

Hyogo [M]: Thank you. I understood very well. Now, I hope that you will keep up the good work up to Q1 now that you've achieved your target and would like to see the results throughout the year.

Oshima [M]: Thank you. Now we are running out of time, so we would like to take the last question, Morgan Stanley, MUFG, Sato-san, please.

Sato [Q]: Thank you. So, my question is very simple. I just wanted to hear about the situation in Japan in April. But before that, I find your figures quite complex, as there have been a lot of non-recurring items recognized. So, I just want to technically understand the background behind that. I initially assumed that when it was mentioned that actual figures were exceeding your plans, you were referring to the numbers excluding the non-recurring items. However, since the number of non-recurring accounted items have increased, I would like to know if you were actually saying that the operating loss, initially anticipated to be loss of JPY13 billion, has turned out as approximately a loss of JPY8.7 billion? Furthermore, I can hardly believe it, but does the annual plan for the non-recurring items of JPY30 billion remain unchanged?

Hirofuji [A]: The annual plan for non-recurring items remains unchanged. Any upside is only in core operating profit.

Sato [Q]: Well, that means, the core operating profit exceeded your target?

Hirofuji [A]: Yes, that's right.

Sato [Q]: Well, then it means that in actual terms, it has not exceeded expectations, doesn't it? I believe it means that non-recurring items, which were originally expected to be recognized in Q2 were being recognized in Q1 instead.

Hirofuji [A]: It means that we are exceeding expectations, excluding non-recurring items. The advance portion of non-recurring items is not included, of course.

Sato [Q]: Understood. It is quite complex, but there was a shift in recognition of non-recurring items from Q2 to Q1. This means that the core operating profit represents the true capability on earnings on an unadjusted basis has exceeded expectations.

Following that, the situation in Japan in April is not as bad as anticipated. Prestige has seen a 45% increase in revenue, and there were also price increases. Considering that we expected to see a slowdown in Japan in the second quarter, to what extent is the current situation not as bad? It would be beneficial for us to understand the degree of that, so we would not be surprised in Q2. Please do share this information.

Fujiwara [A]: Currently, the sell-out actuals for April are trending in double digits growth. Regarding the period before and after the price increases, the negative impact from that, especially for brands like Clé de Peau Beauté where the impact was expected to be large, it seems like it ended with about half the impact we originally expected. However, I cannot provide very specific figures.

Sato [Q]: Okay. I understand that. So, it means that there is a trend of increasing revenue, moving in double digits.

Fujiwara [A]: Yes, that's right.

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

Oshima [M]: Okay. So, we would like to end the Q&A session. So, we would like to close overall the Q1 earnings report.

Now IR division will send you the questionnaire, so I hope you will fill out the questionnaire so that we can leverage your opinions for the better IR earnings report going forward.

Thank you very much for your attendance today.

[END]

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