Shiseido Company, Limited

2024Q3 Financial Results (January-September)

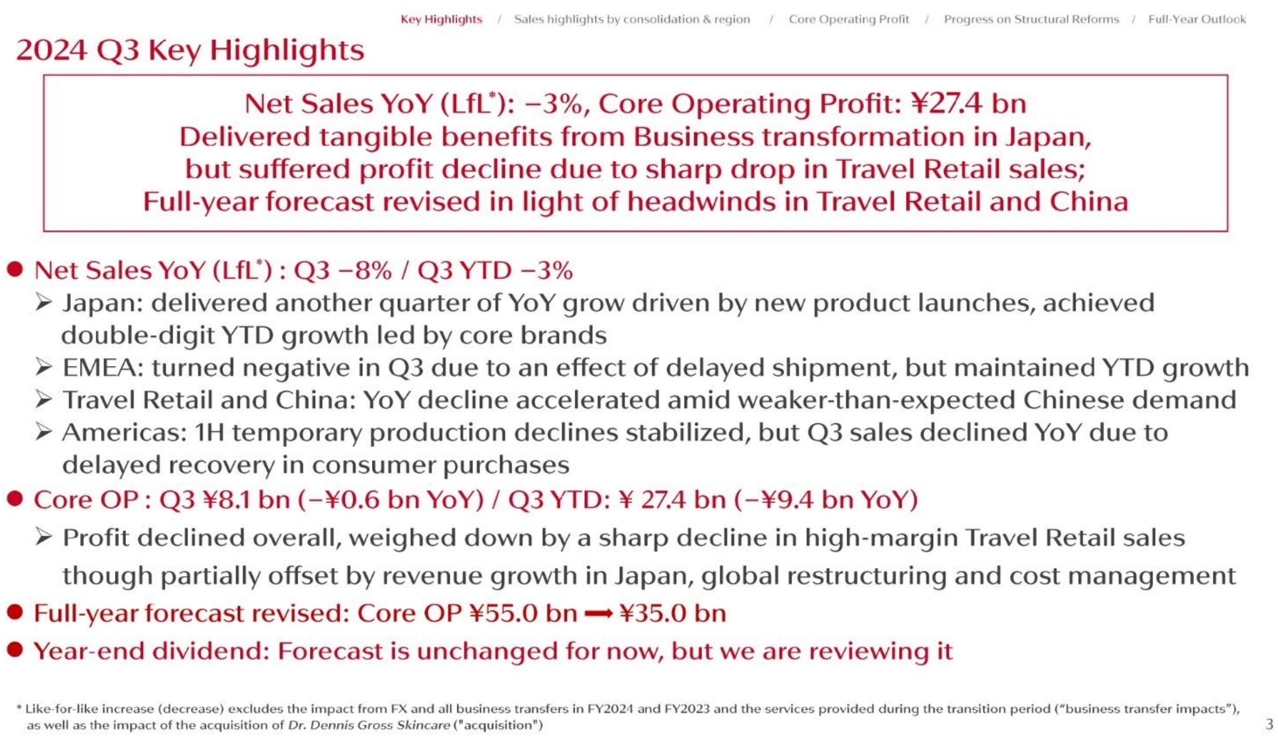
November 7, 2024

Event Summary

[Company Name]	Shiseido Company, Limited
[Company ID]	4911-QCODE
[Event Language]	JPN
[Event Type]	Earnings Announcement
[Event Name]	2024Q3 Financial Results (January-September)
[Fiscal Period]	FY2024 Q3
[Date]	November 7, 2024
[Time]	17:30 – 18:32 (Total: 62 minutes, Presentation: 29 minutes, Q&A: 33 minutes)
[Venue]	Webcast
[Number of Speakers]	3

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

Presentation



Hirofuji: From here, I would like to explain Q3 performance for 2024. First, please take a look at the summary on page 3.

After the summer, Travel Retail and China faced further challenges. Q3 was a quarter focused on achieving profit by thoroughly improving efficiency and scrutinizing costs. The good news is Japan, the results of the reforms implemented so far are clearly reflected on the significant increase in profits, which has become a key driver supporting the overall Company's profitability.

Consolidated net sales on a like-for-like basis, excluding the impact of foreign exchange, all business transfers and the acquisition of Dr. Dennis Gross Skincare, declined by 8% in the three months from July to September and by 3% on a cumulative basis for Q3. In Japan, the core brands continue to perform well with the launch of new products in Q3 driving strong growth. Despite a slowdown in inbound sales, the overall business in Japan continued to show double-digit growth on a cumulative basis. In EMEA, sales declined in Q3 due to shipping delays and other timing issues, but on a cumulative basis, sales showed an increase.

On the other hand, in Travel Retail and China, the decline in Chinese consumer demand, which became evident in H1, accelerated further in Q3, resulting in a greater-than-expected decrease in sales. In the Americas, net sales continued to decline in Q3. The production shortfall caused by IT system implementation issues in Q2, which had led to a significant sales decline has been largely resolved. However, there has been a delay in recovering from the loss of consumer purchases due to the supply reduction earlier in the year.

Core operating profit for Q3 on a cumulative basis was JPY27.4 billion, a decrease of JPY9.4 billion compared to last year. The significant impact of declining sales in the high-margin Travel Retail segment was a major factor. However, the Japan Business has steadily improved in terms of profitability and productivity, realizing significant increase in profit. In the light of the performance being more challenging than expected in Travel Retail, China and the Americas as well as a more difficult outlook for Q4 than what was expected in August, we are revising our full-year forecast for the core operating profit from JPY55 billion to JPY35 billion.

The year-end dividend forecast will remain unchanged at this time. However, we will closely monitor the situation and review as needed.

Key Highlights / Sales highlights by consolidation & region / Core Operating Profit / Progress on Structural Reforms / Full-Year Outlook

2024 Q3: Executive Summary

(Billion yen)	Q3 2023	Q3 2024	Q3 YoY Change	Q3 YoY Change %	Q3 YTD 2023	Q3 YTD 2024	Q3 YTD YoY Change	Q3 YTD YoY Change %
Net Sales	228.2	214.2	−14.0	−6%	722.4	722.8	+0.3	+0%
YoY FX-Neutral %				−8%				−5%
YoY LfL*1 %				−8%				−3%
Core Operating Profit	8.8	8.1	−0.6	−7%	36.8	27.4	−9.4	−26%
Margin	3.8%	3.8%	−0.0pts		5.1%	3.8%	−1.3pts	
Non-recurring Items	3.4	−3.2	−6.6	-	−11.0	−25.2	−14.2	-
Operating Profit	12.2	4.9	−7.3	−60%	25.8	2.2	−23.6	−92%
Margin	5.3%	2.3%	−3.1pts		3.6%	0.3%	−3.3pts	
Profit Before Tax	13.3	2.9	−10.4	−78%	28.7	7.2	−21.6	−75%
Income Tax Expense	4.1	1.7	−2.4	−58%	7.1	5.7	−1.3	−19%
Profit Attributable to Owners of Parent	8.8	0.7	−8.0	−92%	20.5	0.8	−19.8	−96%
Margin	3.8%	0.3%	−3.5pts		2.8%	0.1%	−2.7pts	
EBITDA*2	21.9	21.9	−0.0	−0%	75.1	67.3	−7.8	−10%
EBITDA Margin	9.6%	10.2%	+0.6pts		10.4%	9.3%	−1.1pts	

Q3 YTD

Net Sales:	YoY (LfL*2) −3%	Japan local continued to deliver strong growth led by core brands Declined YoY overall, weighed down by negative growth in Travel Retail, China and Americas
Core Operating Profit:	YoY −¥9.4 bn	Declined YoY overall due to a sharp decline in high-margin Travel Retail, albeit partially offset by revenue growth in Japan, global structural reforms and cost management efforts
Non-recurring Items:	2024 −¥25.2 bn	Recognized costs related to structural reforms primarily incurred in Japan and China

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

4

Next, on page 4, here is the executive summary of the P&L.

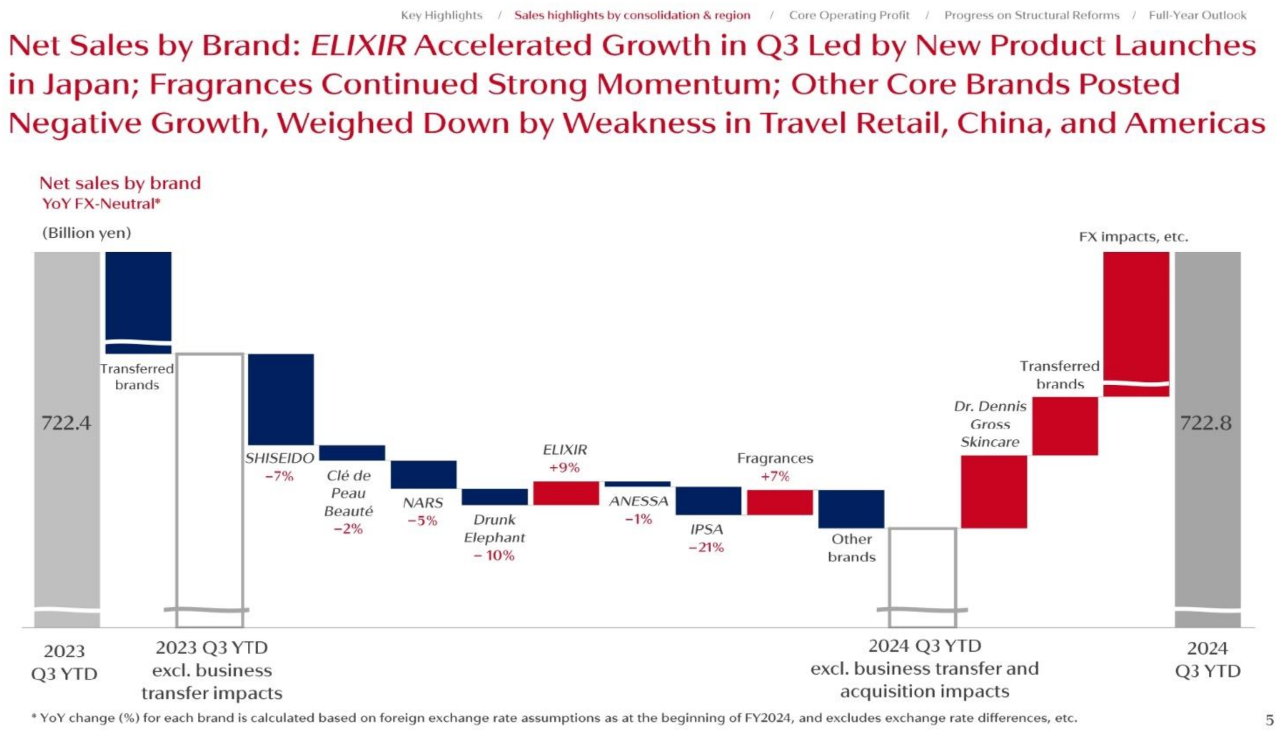
On the left, we show the figures for the three months from July to September and on the right, the year-to-date for the nine months. First Q3 year-to-date, the actual net sales and core operating profit are explained as earlier. Operating profit is JPY2.2 billion, a decrease of JPY23.6 billion versus last year.

In addition to the decline in core operating profit, the JPY25.2 billion of non-recurring items had a significant impact. In the H1 of the year, we incurred structural reform costs related to Japan's early retirement program and organizational optimization and store closures in China. On top of that, we had JPY3.2 billion in costs in Q3, primarily related to the termination of leases for directly operated stores and offices.

For non-recurring expenses, we had originally forecasted JPY30 billion for the full year, and there has been no significant difference from that estimate. The quarterly profit attributable to the owners of the parent company was JPY800 million, a decrease of JPY19.8 billion compared to the previous year.

Next, core operating profit for the period from July to September was JPY8.1 billion with a profit margin of 3.8%. Despite a decrease in actual sales of 8% YoY, we maintained the same level of profit margin as in H1.

This result reflects the efforts across the Company of prioritization of investments and thoroughly managing costs. While the profit margin is not at a level we are fully satisfied with, we will continue working toward establishing a high profitability structure going forward.



Next is page 5, the net sales by brand.

ELIXIR accelerated its growth significantly from a 5% increase in H1 to an 18% increase in Q3, resulting in a 9% growth for the nine months. The launch of the Youth Accelerator Serum ELIXIR THE SERUM aa in Japan in September had a strong start with cumulative shipments reaching 520,000 units just 10 days after its release, far surpassing expectations and driving overall brand growth.

The fragrance segment also maintained strong performance, particularly in EMEA and the Americas. On the other hand, other key brands saw a decline due to the impact of reduced sales in Travel Retail, China and the Americas.

Brand SHISEIDO experienced a 7% decrease globally, primarily due to the declined sales in Travel Retail and China.

Cle de Peau Beaute continued to grow in Japan and China, supported by a strong base of loyal users, but was significantly impacted by the drop in consumption in Travel Retail, resulting in a 2% decline globally.

Drunk Elephant faced a substantial drop in shipments in Americas and also saw negative growth in EMEA in Q3, turning negative globally. We recognize that revitalizing brand SHISEIDO in China and recovering consumer purchases of Drunk Elephant in the Americas are our urgent priorities, and we are committed to making every effort to address these challenges and drive recovery.

Key Highlights / **Sales highlights by consolidation & region** / Core Operating Profit / Progress on Structural Reforms / Full-Year Outlook

Net Sales YoY by Region: Japan Achieved Double-Digit Q3 YTD Growth; EMEA Turned Negative in Q3, but Continued to Deliver YTD Growth; Travel Retail, China, and Americas Posted Another Quarter of Negative Growth

	2023 (vs. 2022)					2024 (vs. 2023)			
Like-for-like*	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q3 YTD
Japan	+8%	+9%	+6%	+17%	+10%	+20%	+7%	+5%	+10%
China	−3%	+20%	−9%	−21%	−5%	−3%	−9%	−13%	−8%
Asia Pacific	+16%	+12%	+15%	+8%	+13%	+5%	+7%	+2%	+4%
Americas	+30%	+18%	+10%	+9%	+15%	+9%	−20%	−9%	−7%
EMEA	+22%	+11%	+15%	+26%	+19%	+17%	+6%	−7%	+5%
Travel Retail	−4%	−4%	−25%	−43%	−20%	−31%	−15%	−38%	−27%
Total	+7%	+10%	−2%	−6%	+2%	+3%	−4%	−8%	−3%

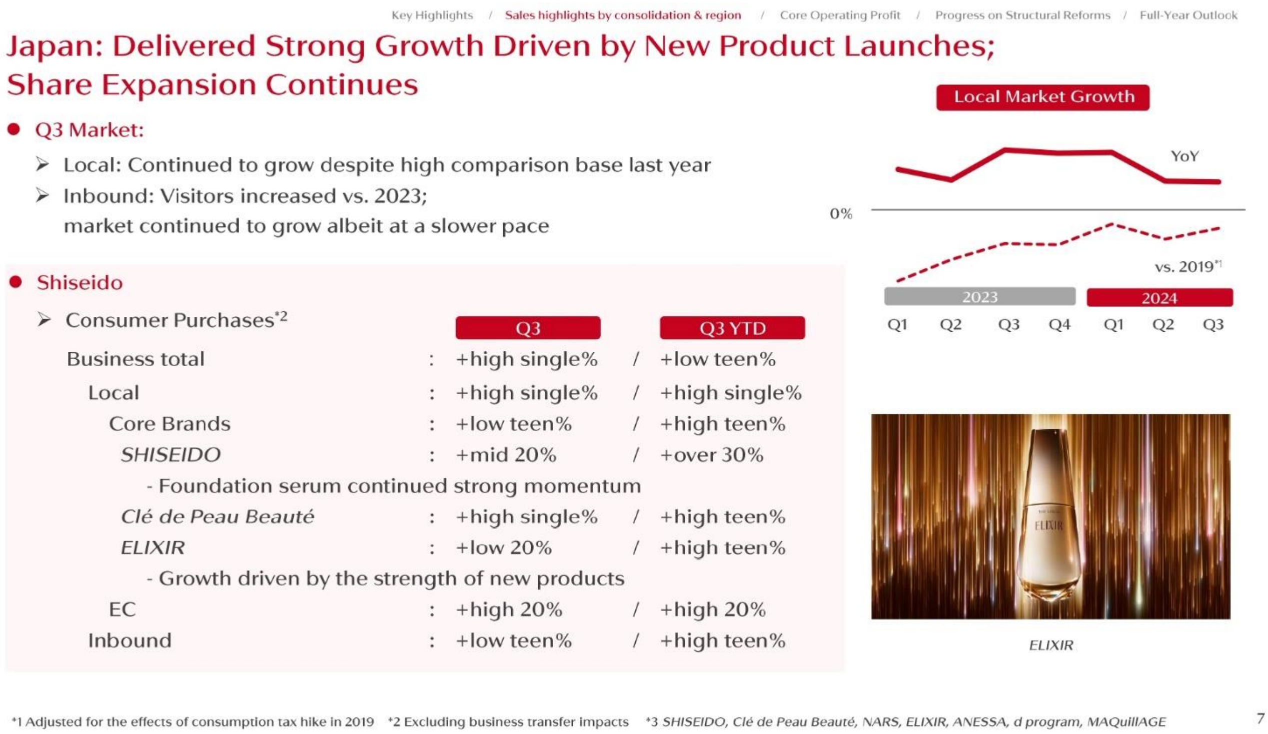
* Excluding impacts from FX, business transfer and acquisition

6

Next on page 6, we have the YoY net sales by region.

On a cumulative basis, Japan, EMEA and Asia Pacific saw an increase in sales, while China, Travel Retail and the Americas experienced a decline. In Japan, shipments increased by 5% in Q3, showing a slight slowdown compared to previous growth rates. However, consumer purchases have remained strong. Since May of last year, following the full post-COVID reopening, we have maintained growth momentum despite higher YoY comps. This is a reassuring sign that our strategy of selection and concentration, along with innovations driven by our technical capabilities, is working effectively.

Next, EMEA, which had maintained strong growth through H1, saw a temporary decline in Q3 due to the impact of delayed shipments of holiday products and the high YoY comps from last year's initial shipments of new products. In China and Travel Retail, Chinese consumer spending declined even further compared to H1, resulting in a larger-than-expected negative growth. For the Americas, we had originally expected a recovery in the H2 of the year, however, after the decline in Q2, sales also fell short of expectations in Q3, resulting in a significant drop in revenue.



Next is page 7, about Japan.

In Q3, the local market continued to maintain growth. Despite higher YoY comps, the positive trend from the H1 of the year was sustained. As for inbound sales, while the number of inbound tourists to Japan continues to rise, there has been a declining trend in cosmetic purchases and the pace of growth has slowed down. Amidst this, our Japan Business continued to lead overall growth with strong performance, achieving a robust growth rate in the low-teen percentage for core brands.

The increase in market share in the mid- to high-price segment contributed to this expansion. Overall, we saw an increase in market share. Both Shiseido, Cle de Peau Beaute and ELIXIR have steadily been growing their user base and all three brands have expanded their share in the local market. Following the success of SHISEIDO's foundation serum, ELIXIR's Youth Accelerator Serum has also gained significant market share in the serum category, recording a major hit. E-commerce sales have also continued to show steady growth, expanding at a pace of high 20%, outperforming the overall business as we continue to expand the range of brands available online. As for inbound sales, the Q3 results were below expectations. However, we will cover the shortfall with increased sales from the strong performance of our local business.

Key Highlights / **Sales highlights by consolidation & region** / Core Operating Profit / Progress on Structural Reforms / Full-Year Outlook

China and Travel Retail: Sales Declined YoY Amid Challenging Market Environment, with Steady Inventory Decline

China

- **Q3 Market**
  - Consumption slumps amid increasing trends of Chinese consumers spending less and saving more
- **Shiseido**
  - Consumer Purchases*

		Q3		Q3 YTD
Business total	:	−high single%	/	−high single%
Offline	:	−low 20%	/	−mid teen%
EC	:	+low 20%	/	−low single%
Mainland China	:	−high single%	/	−low teen%
SHISEIDO	:	−mid teen%	/	−low 20%
Clé de Peau Beauté	:	−high single%	/	+mid single%
NARS	:	−low single%	/	+mid single%

Travel Retail

- **Q3 Market**
  - Sharp decline in Chinese tourist consumption
- **Shiseido**
  - Consumer Purchases*

		Q3		Q3 YTD
Business total	:	−high teen%	/	−mid teen%
Asia	:	−high 20%	/	−mid 20%
Hainan Island	:	−over 30%	/	−over 30%
Korea	:	−over 30%	/	−over 30%
Japan	:	+over 30%	/	+over 70%

- Continued to grow on the back of rising number of inbound tourists

		Q3		Q3 YTD
Americas & EMEA	:	+mid teen%	/	+over 40%

- Maintained positive momentum driven by fragrances

* Excluding impacts from FX and business transfer

8

Next is page 8, China and Travel Retail.

First, regarding the Chinese market, consumer spending continues to decline due to increased saving tendencies and a more cautious approach to spending, driven by uncertainties about the economic outlook. The situation has become even more challenging compared to the H1 of the year. Our business in China continued to experience negative growth. By channel, e-commerce showed a solid performance with a growth rate in +low 20% range in Q3, benefiting from the relatively low comps last year following the release of treated water from Fukushima, which led to reduced purchases of Japanese products.

However, offline sales saw a significant decline. From a brand perspective, brand SHISEIDO, in particular, despite last year's significant decline, experienced further decline in sales. To rebuild the brand value, we will accelerate our efforts for selection and concentration investment strategy on key products.

Next, regarding Travel Retail. The decline in spending by Chinese travelers has been more significant than expected, and the situation has become increasingly challenging. While we have already implemented inventory adjustments, we will continue to rigorously manage inventory levels and to ensure control so that we do not have excess shipments. We will also maintain our strategy of focusing on traveler-centric business and intentionally reducing non-tourist sales.

While the current situation remains difficult with prolonged profit declines across the Company, we are committed to improving the health of the business and ensuring stable mid- to long-term growth. Despite the challenges, Travel Retail in Japan has continued to grow, driven by a recovery in the number of store visitors. In EMEA and the Americas, high growth rates have continued, particularly in the fragrance segment.

Americas: Temporary Production Declines Stabilized, but Sales Dropped on Delayed Recovery in Consumer Purchases

- Q3 Market
  - Prestige beauty market grew at a slower pace
  - Skincare market decelerated while Fragrances continued strong momentum

- Shiseido
  - Consumer Purchases*:
    - 1H temporary production and shipment declines stabilized in Q3, but prolonged impact on sales recovery
  - External Sales*:

		Q3		Q3 YTD
Business Total	:	−9%	/	−7%
Drunk Elephant	:	−over 40%	/	−low 20%
NARS	:	+mid single digit %	/	−high single digit %
Shiseido	:	−low teen%	/	−low single digit %
Fragrances (all brands)	:	+over 30%	/	+low teen%

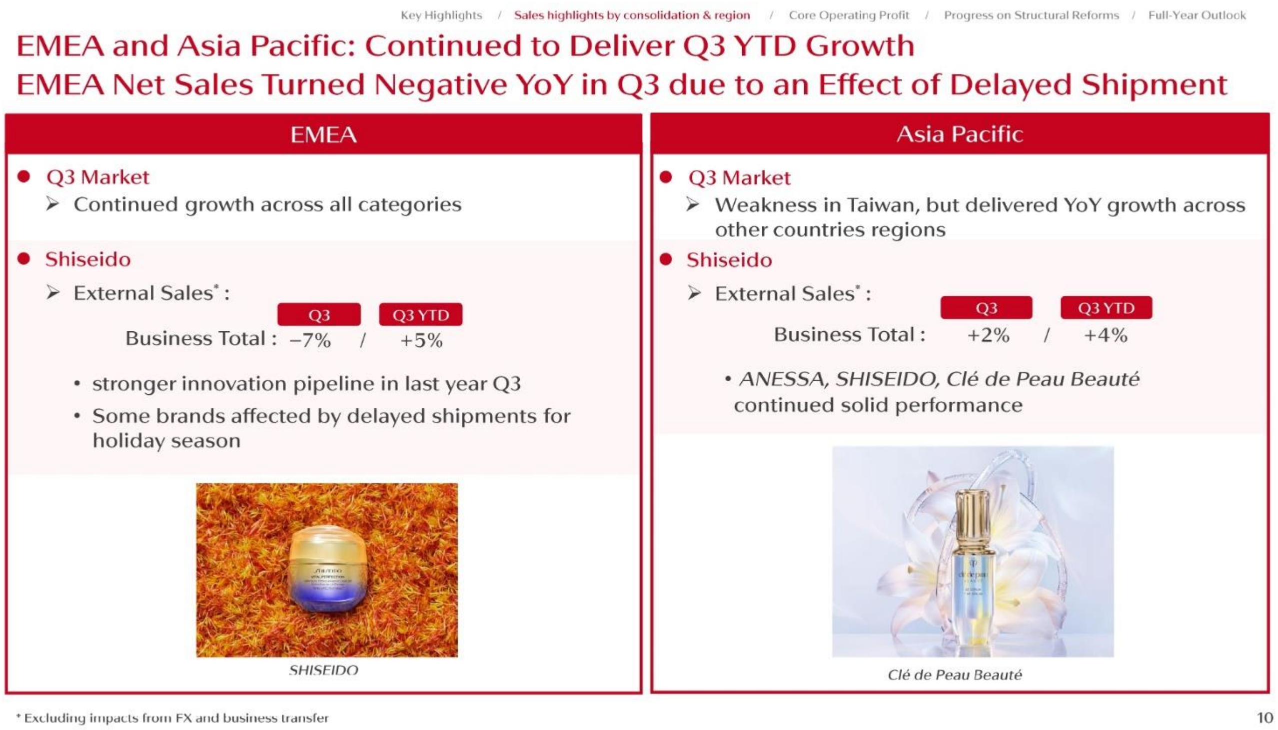
* Excluding impacts from FX, business transfer and acquisition

9

Next, page 9, we will look at the Americas.

As of August, we have reported that the decline in sales as Q2 was a temporary phenomenon caused by the decrease in production, and we would aim to achieve a high rate of growth in H2 as production and inventory returned to appropriate levels. Unfortunately, however, the result fell far short of our expectations and sales also declined in Q3. We were aware that consumers were turning away from the products due to the lack of stock in stores caused by the supply shortage in the H1 of the year. We made additional investments in marketing measures for our selected focused brands in order to recover from this.

As a result, NARS turned into positive in Q3, but Drunk Elephant was slow to recover and the negative margin widened. In addition, there was a trend among consumers to trade down in the prestige skin care market and Shiseido also lost market share, resulting in a decline in our external sales. We are currently discussing the ideal approach for brand, price range, channel, and management in the overall business in the Americas.



Next, page 10. The European market continued to grow in all categories.

Although sales in Q3 were affected by the partial delay in shipments in Q4, we launched Advanced Cream from the Vital Perfection and a new cream from the Bio-Performance in September and October, respectively, in brand SHISEIDO. By making solid investments in marketing for the media, we are planning to achieve LfL sales growth of + high teens. Although this is preliminary data, shipments in October are progressing as planned.

In Asia Pacific, the slowdown in the market in Taiwan which accounts for a large proportion of our sales had an impact on our business, but this was covered by growth in other major countries and regions. ANESSA, Shiseido, and Cle de Peau Beaute continued to grow.

Key Highlights / Sales highlights by consolidation & region / Core Operating Profit / Progress on Structural Reforms / Full-Year Outlook

Core OP : Declined Overall Due to Sharp Drop in Travel Retail Sales, Partially Offset by Growth in Japan, Global Structural Reforms and Cost Management

Q3 YTD

- Japan : Achieved significant YoY profit growth, thanks to higher gross profit driven by sales growth, better mix via selection and concentration as well as structural reform effects
- China : Increased YoY offset by lower inventory write-offs and structural reform effects including fixed cost reduction
- Asia Pacific : Increased YoY driven by higher gross profit generated from increased sales
- Americas: Declined YoY due to lower gross profit driven by sales decline
- EMEA: Declined YoY despite YoY increase in gross profit from higher sales, offset by increased marketing investment, etc.
- Travel Retail: Declined sharply YoY due to lower gross profit driven by sales decline
- Other/ Adjustments: Lower gross profit due to decrease in intersegment sales to the Travel Retail and China, changes in the amount of unrealized profit recognized for elimination

(Billion yen)

Core Operating Profit (Core OPM)	2023 Q3 YTD		2024 1H		2024 Q3		2024 Q3 YTD		Q3 YTD YoY
Japan	−0.6	(−0.3%)	7.9	(5.6%)	10.6	(15.2%)	18.5	(8.7%)	+19.1
China	2.0	(1.1%)	4.9	(3.7%)	−2.3	(−5.4%)	2.6	(1.5%)	+0.6
Asia Pacific	1.7	(3.3%)	2.2	(5.9%)	2.5	(12.2%)	4.7	(8.1%)	+3.0
Americas	6.5	(7.6%)	2.6	(4.3%)	1.3	(4.2%)	3.9	(4.3%)	−2.5
EMEA	4.4	(5.0%)	3.7	(5.6%)	−0.4	(−1.3%)	3.3	(3.4%)	−1.1
Travel Retail	19.0	(17.4%)	7.7	(11.5%)	−2.4	(−12.3%)	5.3	(6.2%)	−13.6
Other	−3.3	(−1.6%)	−9.0	(−7.0%)	−3.8	(−6.5%)	−12.8	(−6.8%)	−9.5
Adjustments	7.3	-	−0.9	-	2.7	-	1.8	-	−5.5
Total	36.8	(5.1%)	19.3	(3.8%)	8.1	(3.8%)	27.4	(3.8%)	−9.4

11

Next, on page 11, we will look at core operating income by segment.

In Japan, we saw significant increase in profit due to not only higher sales, but also an improvement in the gross profit margin due to a better profit-product mix and price increase as well as the effects of structural reforms. There was also a one-off increase in income and the deferral of some expenses, but we are continuing to make steady progress towards our target of over JPY20 billion in annual income.

As I explained earlier, inbound tourism is weaker than expected. Though sales are currently about half the size of the peak in 2019, we are still generating a profit, and we believe that we are steadily making progress in reforming our business structure to be able to generate profits in our local business.

In China, despite a YoY sales decline of 9% on a LfL basis in Q3, profit increased by JPY600 million. We are continuing to strengthen our marketing investments in key areas and are minimizing the impact of the decrease in revenue through structural reforms, such as the closure of unprofitable stores and personnel reduction and building PL structure that generates healthy profits.

In EMEA, while shipments in Q3 were significantly lower than expected, we continued to invest in marketing to maintain and accelerate customer purchases. While sales increased and profits decreased in Q3, we are aiming to improve profitability along with the recovery in sales in Q4. In addition, although Travel Retail is our most profitable segment, the significant decline in sales has led to a fall in profits. This decline in Travel Retail sales has also had a significant impact on Other segments, reducing intersegment sales and margins.

As a result, overall profits for Q3 fell by JPY9.4 billion. Adjustments were also affected by the change in the elimination of unrealized profits, leading to a decline in profit. Last year, the adjustment for the elimination of unrealized profit had a significant positive effect due to a reduction in inventory in anticipation of a worsening outlook, mainly in China and Travel Retail. This year, the main factor was the decrease in profit as a reaction to that.

Progress on Global Cost Reduction and Profit Boosting

Expect ¥20.0 bn benefits in 2024; additional ¥5.0 bn vs the initial plan of ¥15.0 bn

- Japan : COGS reduction by focusing on core brands and hero products; the implementation of ERIP*; streamline marketing promotional items, boutique closures, office lease termination
- China : optimization of organizational structure, closure of unprofitable doors, COGS reduction, selection and concentration of brands
- Global : employee productivity improvement, COGS reduction, Logistics optimization

(billion yen)	2024 1H	2024 Q3	2024 Q4 Outlook	2024
Japan	2.0	2.0	4.5	8.5
China	3.0	1.5	2.0	6.5
Travel Retail	0.0	0.5	0.5	1.0
Asia Pacific, Americas, EMEA, Other (Global HQ)	2.0	0.5	1.5	4.0
Total	7.0	4.5	8.5	20.0

* Early retirement incentive plan

12

Next page, on page 12, we look at the global cost reduction and profit improvement measures that we are promoting as part of a global transformation.

In H1, we generated JPY7 billion in benefits; and in Q3, we generated approximately JPY4.5 billion in benefits. When combined with the expected benefits from Q4, we expect to generate JPY20 billion in benefits for the year, with an extra benefit of JPY5 billion versus the initial target. We are accelerating the implementation of structural reforms, mainly in China, focusing on reducing fixed costs and also in EMEA, Americas, Asia Pacific, and our plant by improving costs and optimizing logistics on a global basis.

Next, page 13, I will talk about the progress on the structural reforms in Japan.

Mirai Shift NIPPON 2025 improvements in both profitability and productivity are steadily progressing. First, in terms of profitability, the growth of core brands through selection and concentration, the implementation of strategic price increases, and the improvement of the product mix through the launch of new and high-end products in the mid-price range have all contributed to an increase in the gross profit. We have also been able to create a number of hit products based on the technological capabilities such as the one shown in the photo.

Our success is underpinned by a marketing strategy that emphasizes returns with a focus on concentrating investment in core brands and changing communication for the same products to lead to a dramatic sales growth. Furthermore, we are reviewing the optimum way to operate our business and have closed our Harajuku directly-operated store and our global flagship store in Ginza as well as terminating our office lease. In addition to improving profitability, we are also working to improve cash flow and improve capital efficiency by reducing our balance sheet.

Turning to productivity, although we significantly reduced the workforce at the end of September through our early retirement support plan, we have not seen a decline in sales momentum during the transition period. Thanks to the improvement in the employee productivity and optimum personnel allocation that we have been working on as part of our structural reforms. Personal beauty partners are implementing reforms aimed at increasing sales per person, and we are promoting optimal personnel allocation and the activation of activities that make the most of digital and specialist skills in order to maximize our customer contact points. We are also promoting productivity improvements for sales staff by transferring authority and responsibility to the front line so that decisions and actions can be made quickly and from the front line in terms of operation.

2024 Outlook

- Revised in light of YoY sales declines in Travel Retail, China, and Americas
- Year-end dividend: Forecast is unchanged for now, but we are reviewing it

(Billion yen)	2023	2024 Previous Forecast*1 (Feb. 2024)	2024 Revised Forecast*1	% of Net Sales	YoY Change	YoY Change %	YoY FX-Neutral %	YoY LfL*2 %	Change vs. Previous
Net Sales	973.0	1,000.0	990.0	100%	+17.0	+2%	−2%	−1%	−10.0
Core Operating Profit	39.8	55.0	35.0	3.5%	−4.8	−12%			−20.0
Non-recurring Items	−11.7	−30.0	−30.0	−3.0%	−18.3	-			-
Operating Profit	28.1	-	5.0	0.5%	−23.1	−82%			-
Profit before Tax	31.0	32.5	11.0	1.1%	−20.0	−65%			−21.5
Profit Attributable to Owners of Parent	21.7	22.0	6.0	0.6%	−15.7	−72%			−16.0
EBITDA*3	91.8	114.0	86.5	8.7%	−5.3	−6%			−27.5
Dividend (yen/per share) (Forecast)	60 Interim: 30 Year-end: 30	60 Interim: 30 Year-end: 30	60 Interim: 30 Year-end: 30						

−70.0 Excl. FX assumption change impacts

2024 Full-year FX Assumptions (Revised) USD/JPY: 150 yen (+6.8% YoY), EUR/JPY: 162 yen (+6.6% YoY), CNY/JPY: 21.0 yen (+5.9% YoY)
(Previous) USD/JPY: 135 yen EUR/JPY: 145 yen CNY/JPY: 19.5 yen

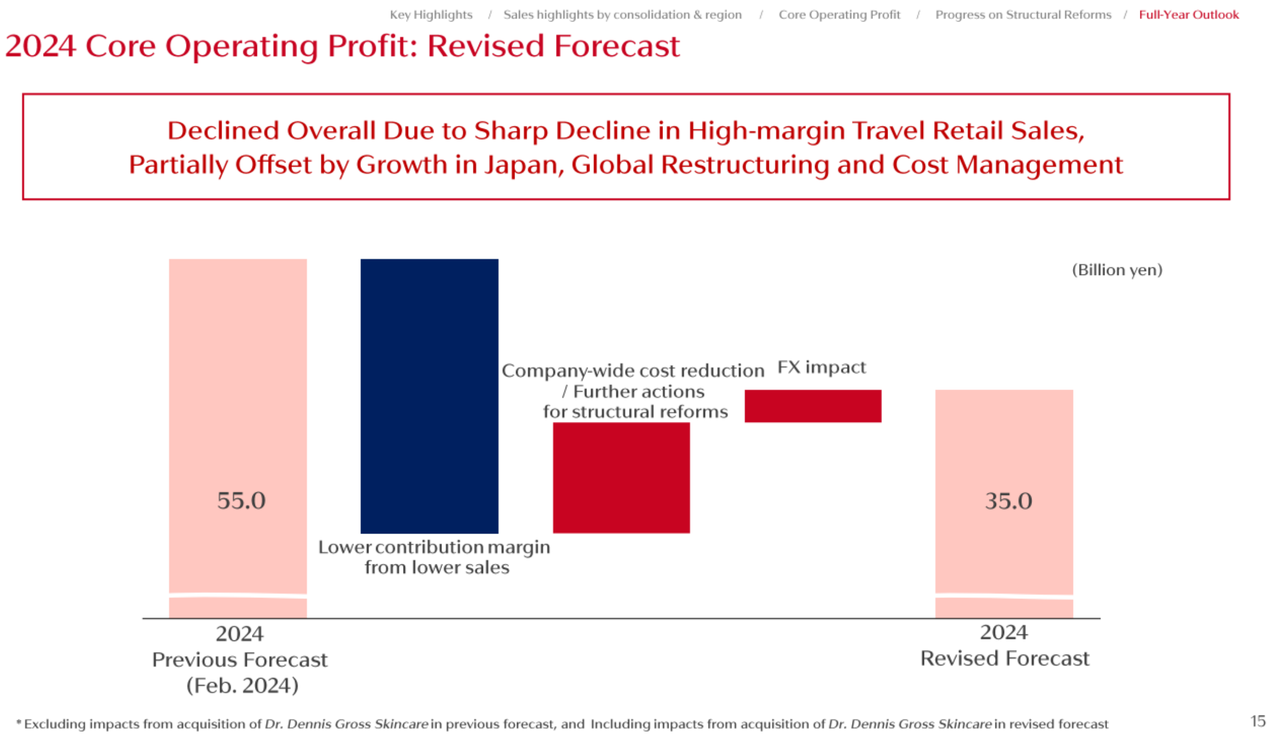
*1 Excluding impacts from acquisition of *Dr. Dennis Gross Skincare* in previous forecast, and Including impacts from acquisition of *Dr. Dennis Gross Skincare* in revised forecast
*2 Excluding impacts from FX, business transfer and acquisition *3 Core Operating Profit + Depreciation and Amortization (excl. depreciation of right-of-use assets)

14

Next, page 14. We will explain the outlook.

As I mentioned at the beginning of this presentation, we have revised our full year outlook in light of the significant changes in the market environment. The main reasons for this are the lower-than-expected sales in Travel Retail and China as well as the delayed recovery in the Americas, which I will explain in more details in the next slide. In light of these factors, we have revised our initial forecast for LfL net sales from a YoY increase of 8% to a YoY decline of 1% for the year and a YoY increase of 6% for Q4.

Although this means that we are moving from a negative 8% in Q3 to a positive figure, given the low hurdle caused by the impact of treated water in China last year, we are not placing too high a growth rate. Based on the initial response to Double 11, et cetera, we are confident in the accuracy of our forecast. We are also revising our forecast for the core operating income to JPY35 billion and for profit attributable to the owners of the parent to JPY6 billion. The year-end dividend forecast will remain unchanged at this time. However, we will closely monitor the situation and review as needed.



Finally, on page 15, we will look at the difference between the previous forecast for full-year core operating income.

The decrease in marginal income due to lower sales in Travel Retail, China, and the Americas was partially offset by flexible cost controls and effects of structural reforms. There was an increase in income due to the depreciation in yen, but the impact of the decrease in income in the high-margin Travel Retail Business was significant. The core operating income is expected to be JPY35 billion, a decrease of JPY20 billion.

Despite these difficult circumstances, we will steadily work on the issue we currently face in order to ensure that we can steadily increase profits and improve profitability in line with the strong revenue growth in Japan, our home country, and to build a new business foundation that can generate stable revenue for the entire Company.

That is all from me.

Medium-Term Strategy SHIFT 2025 and Beyond Review
Vision & Strategic Direction for 2024 and 2025 (disclosed in Feb. 2024)

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

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

17

Fujiwara: In the earnings announcement in August, I mentioned that a briefing session will be held at the end of November. Today, I would like to take this opportunity to touch on how we view the coming two years, 2025 and 2026. Since 2023, we have been advancing our medium-term business strategy, SHIFT 2025 and Beyond. This slide here outlines the objectives we have aimed under the SHIFT 2025 and Beyond strategy, which was announced in February of this year. Aiming for sustained profit growth and the building of a resilient business structure, we have been working on these initiatives with the full commitment of the entire company.

As for global cost reduction, as Hirofuji-san already mentioned, we are already seeing results for 2024, exceeding the initial target of JPY15 billion. We will continue to make steady progress to achieve target of over JPY25 billion planned for 2025. Regarding the reforms aimed to improve profitability in Japan, we have been driving the initiatives last year, and we are steadily seeing improvements in both profitability and productivity. However, in order to achieve the target of JPY50 billion in core operating profit next year, Japan, the largest and most important mother market, must aim for even higher levels of earnings potential.

On the other hand, while we have been aiming for high-quality growth in China and Travel Retail within the framework of stable growth, the market has experienced negative growth and the outlook for the future is not optimistic. Given the significant impact of the situation, we believe a strategic review is necessary. As a result of the review of the strategies in China and Travel Retail, while the Americas, EMEA, and Asia Pacific have been achieving growth, there is a need for greater focus on improving profitability moving forward. Regarding the growth momentum of our core brands, given the market environment changes, we believe that a review and strengthening of our approach is necessary.

In response to the significant changes in the market, the Company, as one team, will face the reality with strong sense of urgency to complete the transformation we initially set out to achieve, which is to build a more resilient organization and profit structure that is less dependent on market conditions globally.

New Strategic Plan for 2025-2026

- Build and execute plans to have a more balanced and profitable business portfolio and to navigate through challenging market conditions
- Fully execute all controllable initiatives

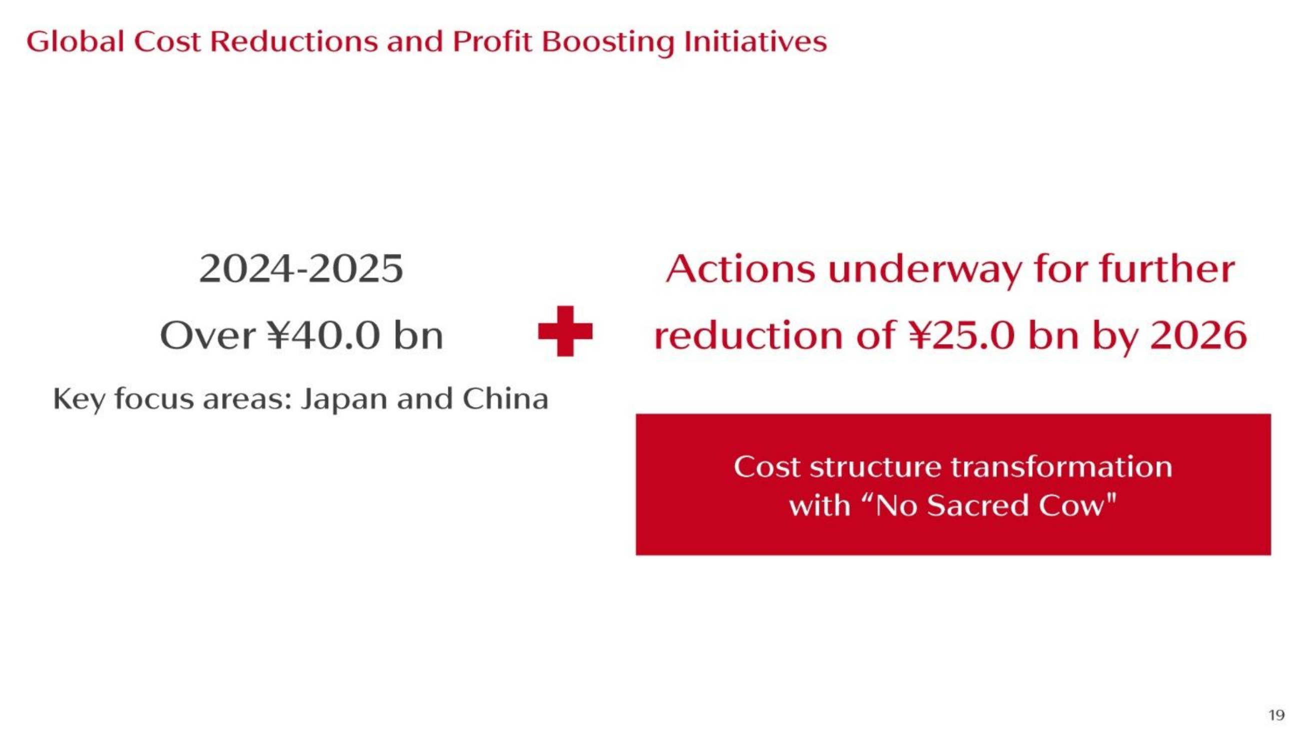
Top Priorities for 2025-2026 ～ Six Must-Win Battles ～

- Reducing fixed costs across the entire Company
- Enhancing profitability in Japan, Americas, EMEA, and Asia Pacific
- Restoring healthy business model in China and Travel Retail
- Accelerating asset-light initiatives
- Redefining our global operational framework
- Sharpening financial governance and accountability

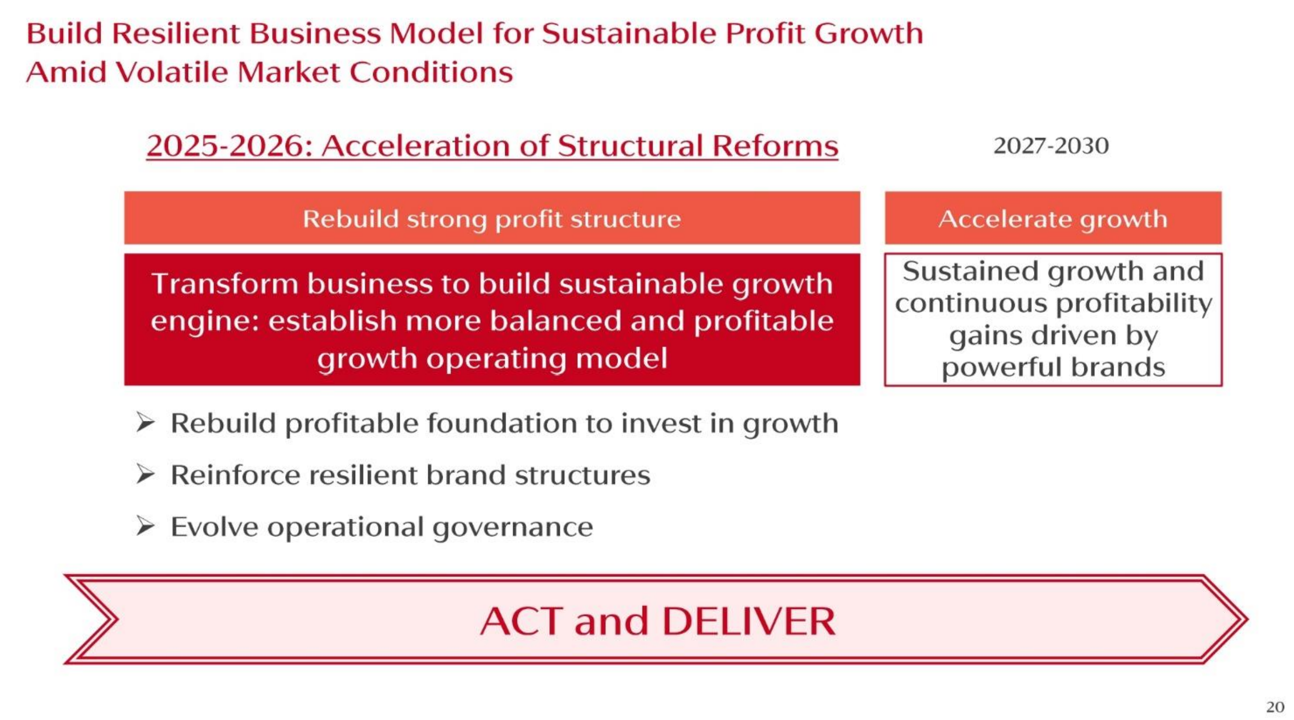
18

In order to achieve this, the strategic direction for the years 2025 and 2026 will focus on formulating a business plan based on a challenging market environment, establishing a profitable revenue structure, and concentrating on controllable factors and thoroughly executing countermeasures ourselves. We are starting with the mindset of building a profitable structure even under challenging market conditions.

The must-win battles for our company are the six listed here, and we will prioritize these efforts for 2025 to 2026. These are all initiatives that we can execute to achieve results through our own efforts and decisions. By carrying them out with strong determination, we aim to build a foundation for growth.



Next, on page 19, of the six must-win battles, the top priority is to reduce costs. In addition to the more than JPY40 billion over the two years, 2024 and 2025, we have also accumulated measures at the JPY25 billion level. We will expand these key areas to the entire global company and we will implement cost structure reforms and fixed-cost reductions without exceptions throughout the Company.



Please turn to page 20. First, we will accelerate structural reforms over the two years from 2025 to 2026, we will improve profitability through further structural reforms, and we will rebuild the foundations to ensure that we can escape from the current critical situation and achieve sustainable growth thereafter.

On page 19, we mentioned cost reduction as part of establishing a highly profitable structure. But of course, we must not fall into a state of shrinking equilibrium by focusing solely on cost reduction. In order to realize our goal of becoming a "Personal Beauty Wellness Company," we will promote the establishment of the strong brand structure in order to nurture global brands in the prestige skin beauty domain, which is our core domain.

Regarding evolving operational governance, in addition to fundamentally strengthening financial governance, we would like to build a new global operational structure that can create value with the aim of improving operational efficiency and strengthening organizational capabilities through greater collaboration between regional businesses and the global headquarters on the global scale. I would like to explain these details at the end of November.

The key to moving forward with this as our action guideline: ACT and DELIVER. We will pursue our commitment to taking action ourselves and delivering results. Naturally, I am prepared to take the lead in this. To be honest, the next two years will not be easy, but I am confident that we will be able to overcome this and become stronger. We need to be prepared for the next two years which will be a critical period for us. As I explained at the press conference when I was appointed COO, my motto is not leaving any issues for the next generation. I will stick to my original intention. I will do what I say I will do. From January and onwards, I would like to continue to actively engage in dialogue with investors as CEO. I would like to receive feedback and review what needs to be reviewed and work to improve corporate value. As the new CEO, I will work to transform the Company into one that can generate solid returns.

Question & Answer

Oshima [M]: Thank you very much. Now, we would like to go into the Q&A session. From JPMorgan Securities, Kuwahara-san.

Kuwahara [Q]: I would like to ask you about the cost structure reforms that you have presented to the extent possible, since this is a good opportunity for us to hear ideas from the top management.

The additional actions for 25 billion yen in 2026 are very encouraging. Please let tell me if you would like us to wait until the end of November to answer to my question. In the case of your company, the SG&A expense ratio is very high compared to your global competitors like L'Oréal, which seems to be weighing on your profit margins. I think there is difference of more than 10 percentage points in a margin here alone.

So what are your ideas about the SG&A-to-sales ratio that you should be aiming for? What do you think is the appropriate level of SG&A? It does not have to be the target in this medium-term, but what is your target to reduce it in a medium-to long-term? Also, based on that, I would like to hear about your outlook for 2026 with that addition of 25 billion yen. How far do you think you will be able to reach that target in 2026 in terms of achieving the ideal vision, may be if you could describe that in a qualitative basis.

Fujiwara [A]: Unfortunately, I cannot provide any specific figures today, but in terms of our approach, we are preparing for a range of action to achieve our target by separately looking at growth and cost structure to a certain extent. We are considering a variety of measures for improvement based on relatively harsh perspective for growth, in order to grasp the idea of how much more we need to do to improve profitability. That is how we look at our initiatives.

As Hirofuji has explained earlier, we have done the cost structure reform in multiple aspects. This year, too, we have the JPY15 billion target, and we will be exceeding this target. We have a JPY25 billion target for next year. For this, we are mainly targeting Japan where we needed reforms and also China and Travel Retail, which have been struggling with a market downturn. But to aim this JPY25 billion in 2026, which is another level, that has to be something that is done across the Company, approaching every aspect of the Company. As for the target, if you can hold on until end of November, I would like to touch upon it at the end of November.

Kuwahara [Q]: Thank you very much. So, if your goal of becoming a global beauty company remains unchanged, that means your target or objective does not change. And so, for that, you're aiming somewhere that equates to the level of other global competitors in the beauty industry in terms of a cost, profit and margin structure. Is my understanding correct?

Fujiwara [A]: Yes. We do need to build that strong revenue streams. Otherwise, since our business is also something that proactively creates new value, we will not be able to challenge new things or make investments without a certain level of profit. So yes, we would like to achieve a higher profitability comparable to our global peers.

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

Oshima [M]: Next, Oliver-san from CLSA Securities.

Oliver [Q]: You mentioned Travel Retail and the China outlook is a little bit difficult. Could you comment a bit more on when you think you could see revenue growth again in those two markets. As a second question, could you be clear when you say you need to be at the right level of profitability? What do you think is the appropriate level of operating profit margin for a cosmetics company? Thank you.

Fujiwara [A]: Currently, in China, Cle de Peau Beaute and NARS are continuing to grow. However, our main brand, the brand SHISEIDO is struggling. Therefore, our first priority is to regain the growth of our brand SHISEIDO going forward. As for the second question, regarding the target for profitability, I think it's too early to provide any specific target in this meeting today.

Oliver [Q]: Understood. As for the Travel Retail, when do you think you will see a recovery there?

Fujiwara [A]*: Currently, in the Travel Retail, the number of tourists is increasing while the conversion rate from tourist to shopper is hovering low. Unit price per tourist is also declining. Therefore, first, we must take these situations fully into account. In addition, we must also carefully manage the tourist sales and the non-tourist sales. From time to time, this non-tourist sales could damage our brands. Therefore, in order to drive healthy sales growth in the future, we will closely monitor the situation. We will do this over the next two years.

Oliver [M]: Okay. Thank you.

Oshima [M]: Next, Morgan Stanley MUFG Securities, Sato-san.

Sato [Q]: You mentioned about strengthening financial governance, and I would like to ask about issues that I've been wondering about by looking at the news flow of your company as well as M&A. I was wondering about the divestiture of Fine Today from the first place. You sold 20% of the shares of Fine Today at the end of June, to the fund for 12.8 billion yen. Then I think you will be looking at 64-65 billion yen for the total value of equity. I do not have intention to ask any reason for selling the entire stake in Fine Today, but looking at the cash flow and the value assessment, I do not think the deal negotiation was done right. Initially, I thought the price was okay, but then you saw a cash outflow and an impairment loss. On the other hand, you see a headline in Bloomberg saying the company could raise JPY150 billion on IPO.

I think what has happened in the last few years is that this has been an M&A process which is quite unfaithful to shareholders. You may say that it was because the results were all right and the circumstances were different, but in the long run, cosmetics will grow in both mass and prestige alike, and I do not think you did not see it at all. Therefore, I hope that the next plan will incorporate the benefits of management's reflection on the results, and I would also like to see if the governance will be taken into account in the remuneration system. I hope that this will be a fundamental strengthening of financial governance. Please let me know if there are misleads about what I am saying at the moment, or if there are any ideas about M&A policies in the upcoming medium-term plan.

Hirofuji [A]: Unfortunately, I think it is difficult to discuss anything specific about financial governance at this point. However, in light of the points you have raised just now, I personally want to make a shift towards cash-oriented financial governance in the future. In that sense, although we would like to refrain from making any comments about M&A deals in the past, including positives or negatives at this point. However, there is no doubt that the decision was made based on a clear and appropriate strategy at that time. With that in mind, I would like to consider how we can strengthen our financial governance in the future, not just M&A.

Sato [M]: Thank you very much. I would like to get some comments around that in your next medium-term strategy announcement. Thank you.

Oshima [M]: Next, Yamanaka-san from SMBC Nikko Securities.

Yamanaka [Q]: You have explained how we will reduce fixed costs and rebuild our earnings base. First, in the next year and the year after next, I wonder if you need to kind of reduce profit once in order to restore growth in China and the United States which is becoming important in your growth strategies. In other words, in China, for example, we recognize that there is a trend among global competitors to sacrifice profitability in order to proactively rebuild their brands by strategically adjusting their inventories or implement rebranding strategy for certain brands, especially those that the pricing is not working very well. As you have noted that a turnaround of the brand SHISEIDO is of utmost importance, I wonder if it would be necessary for your company to sacrifice profitability right now or in the near term to achieve that end. Do you think there will be a need to make such investments to restore growth going forward?

Fujiwara [A]: So I think your question is as to whether it would be necessary to invest to restore growth in China by temporarily sacrificing profitability. As far as the case of the brand SHISEIDO, for example, we are not in a situation that we have substantial increases in inventory or fundamental issues that must be addressed. With Double 11 underway, the most important thing for us right now is to find out how we can drive sustainable growth in our brands while, at the same time, keeping discounts and promotional pricing within our control. So yes, we need to make some investments for growth in that area, but we are not considering increasing investment to change the foundation of our business dramatically at this point. Also, the Chinese market will continue to shift dynamically, and in that sense, we should always try to optimize the portfolio of the entire Group.

Yamanaka [Q]: The U.S. market landscape is also changing a bit, but is there any possibility that you would consider such a strategy to reinvest to restore growth by sacrificing profitability once as an option?

Fujiwara [A]: In the US, we have brands like Drunk Elephant and NARS, but as far as I'm concerned, I believe that the brand SHISEIDO still has room to grow further. To drive that growth, I believe that some kind of shift in our strategy or transformation will be needed, for example by shifting away from department stores that have been the key distribution channels for the brand, to retailers such as SEPHORA and ULTA.

Yamanaka [Q]: So, we do not have to worry about the possibility of seeing a limited growth in profitability despite revenue growth due to higher costs, is that correct?

Fujiwara [A]: Yes, so we must have a strong commitment to achieve cost reductions over the two years to drive investments in order to ensure growth.

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

Oshima [M]: Hirozumi-san from Daiwa Securities.

Hirozumi [Q]: Looking at page 17, and I would like to ask you about the direction in the next fiscal year. Based on the assumptions that your will be reporting core OP of 20 billion yen for the current fiscal year and 50 billion yen for the next fiscal year in the Japan Business, clearly, this segment will be a strong driver from the next year onwards, while other segments will likely be a dragger. What is your idea about the overall revenue and core OP for the coming fiscal year and also which segment would you expect to drive profitability? Do you think the Japan Business will be a strong driver in the next fiscal year while incurring higher costs and expenses for restructuring in other regions? Please explain how I should be looking at this.

Fujiwara [A]: First of all, in terms of the overall direction, as I have mentioned, we will make sure that we thoroughly complete the structural reforms in Japan. That does not change. Meanwhile, we will also start accelerating profitability in the Americas, EMEA, and Asia Pacific in the next fiscal year, in addition to driving growth. As for the overall estimates, we will be sharing that with you in February next year.

Hirozumi [Q]: Understood. What are your thoughts about strategies for driving higher sales in China, Travel Retail, EMEA, Americas?

Fujiwara [A]: I would like to talk about the details about that at the end of November, but the main storyline here is that we build a defensive structure that is not vulnerable to changes in market environment. To that end, China and Travel Retail, we need to execute strategies that prevent over-reliance on China and Travel Retail. Meaning that we would rather focus on growth strategy in the Americas, EMEA and Asia Pacific. I think that will be the overall direction of our strategy.

Hirozumi [Q]: Do you think you will be able to provide that kind of strategic direction on November 29th?

Fujiwara [A]: Yes.

Hirozumi [M]: Okay. Then, I look forward to November 29. Thank you very much.

Oshima [A]: From Mizuho Securities, Miyasako-san, please ask your question.

Miyasako [Q]: I would like to hear about the reform of the global cost structure. In 2024, you have made significant progress in Asia-Pacific, EMEA and Americas excluding Japan, China, and Travel Retail. What exactly are you working on? Also, if you have any image about the regional composition for the additional JPY25 billion, I would appreciate if you could share that with us.

Hirofuji [A]: First of all, I would like to talk about the progress on strategic initiatives for global cost reduction and profitability improvement. There is no one single factor contributing to the progress in EMEA, Americas or other regions, but rather, it is the accumulation of small factors. Of course, there will be an increase in gross profit in addition to cost cuts in supply networks and IT systems. We are also benefitting from other small factors including mix improvement, price increases, and so on. Also, in regard to Japan and China, brand and SKU mix improvement as well as store closures and organizational optimization in China has accelerated more than we expected. As a result, we are ahead of the plan in terms of the cost control and reduction. Regarding the JPY25 billion in next year, as Mr. Fujiwara mentioned, the details are not to be shared at this point.

Miyasako [Q]: But is it correct to say that you are close to finalizing your estimates reflected in the target for next year?

Hirofuji [A]: We are having active discussion at this point. We will make a comment at the end of November.

Miyasako [Q]: Finally, I think you achieved cost reductions ahead of the plan in 2024, but what about 25 billion yen in 2025?

Hirofuji [A]: Yes, we are on track with target of JPY40 billion in 2024 and 2025, and no change in that plan.

Miyasako [Q]: I think there is extra benefits of JPY5 billion. Do you expect that to happen in the next year? Or is it going to be reflected in this addition of original plan 25 billion in 2025?

Hirofuji [A]: Including the point you have just raised, I would like to provide our view for the next year in a separate occasion. As Fujiwara mentioned, we will make the all-out effort for controlling costs without exceptions and seek every opportunity for cost reduction, and we are determined to do that.

Miyasako [M]: Thank you.

Oshima [M]: Thank you very much. From Jefferies, Kawamoto-san.

Kawamoto [Q]: I would like to confirm the status of sales in the third quarter on page 26 once again. So far, there has been much talk about cost control, but I would like you to share your views about sales in the next fiscal year. While I understand the reason for the negative growth in SHISEIDO and Drunk Elephant in Q3, but I want to know why for example, you posted negative growth in ANNESA, as well as in fragrances even though the market is continuing to grow? In addition to the brand SHISEIDO, I think your company has many other valuable brands. In particular, ANNESA is very profitable. What is happening, and how do you expect to bring in from next year?

Hirofuji [A]: First of all, based on the results for the first nine months of the year, if we look at regions with a shortfall in sales, the Travel Retail clearly had the biggest impact on sales overall. That had a negative impact on all brands, all being dragged down. The next is China. The brand SHISEIDO suffered the largest decline in sales, but the other brands, for example, Cle de Peau Beaute is actually performing well in China. And so, we are in the situation where we have a mix of positives and negatives across brands by region.

Kawamoto [Q]: Regarding fragrances and ANESSA on page 26, for example, I think the fragrance market is growing. ANESSA is also a very strong brand. Why are these two tuned negatives? I would like to hear what is going on.

Hirofuji [A]: For fragrance, negative growth in Q3 was primarily driven by weakness in EMEA. As I have explained, EMEA saw a temporary decline in sales in Q3 due to delays in shipping. The Q3 sales was pushed forward to Q2 and Q3 was pushed back to Q4. There's some time lag that had a negative impact on EMEA sales, making the fragrances look negative because that category accounts for a large proportion of EMEA sales. That is why the fragrances looks negative for Q3. However, we do have a plan to effectively boost sales in Q4. Also, in EMEA, as mentioned earlier, we have seen very encouraging numbers in October. So, we are confident that we will achieve strong recovery in the fragrances. Now for ANESSA, the brand has been weighed down by negative sales in China and Travel Retail.

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

Oshima [M]: Thank you. From Mitsui Sumitomo Trust Asset Management, Koguchi-san.

Koguchi [Q]: I have a question about employee engagement or potential risks during transition period. You have explained that the number of employees has been reduced by the voluntary retirement program while maintaining the level of sales. I think that might be the case in the short term, but when we look at medium-to long term, do you think it would be possible to maintain that? I wonder if you can maintain motivation of your employees, or how are you going to drive motivation of employees going forward? I would think that it is difficult thing to do in such a difficult situation, unless there are something that stir up motivation so they are able to enjoy working at your Company. Then, after the current restructuring is done, I fear that there may be some risks, for instance, of a fraud. Fujiwara-san, what are your thoughts on this point? I would appreciate it if you could explain may be in a qualitative way or just by your impression.

Fujiwara [A]: Thank you very much for your question. One of the things that I am happy that we have done was to make the solid investment in our core brands. That reached customers and customers actually came to the stores to purchase our products. That was quite encouraging for our employees. This was highly appreciated by our retail partners as well. As a brand company, we are making investment into the brand, and that creates the exciting products and also exciting workplace, so that turned out to be very successful. There were 1,500 people who applied for the early retirement. Even then, we increased the top line. Also, the other thing we are doing is to assign PBP (Personal Beauty Partner) at places where people gather in order to maximize customer touchpoints. This is the strength and also the meaning of the activities of the PBP and we received very good feedback.

The risks or the walls that we need to overcome, having said that, by losing 1,500 people, depending on the location, sometimes we face a shortage of personnel from what I gather. There is some level of anxiety for the personnel shortage. Those voices have reached me. Then, once again, we would like to revisit our criteria in dispatching people, and we will consult with the retail partners and to gain their understanding to improve upon the way we sell our products.

Lastly, I would like to add that I have been quite persistent in talking to the team of Shiseido Japan to make profit. We are continuing to educate all PBP at our stores about the concept of making profit and what needs to be done to be able to be profitable. We are continuing with our education, and we are receiving excellent feedback from these educational activities and our PBPs are now coming to understand that what actions will result in higher profitability. By continuing these efforts over the long-term including cultural reforms, may be the next 2-3 years, I am confident that we will evolve into an organization that drive sustainable profitable growth.

Koguchi [M]: Thank you very much for this forward-looking topic. I am looking forward to your announcement at the end of November. Thank you.

Oshima [M]: With this, we would like to close the Q&A session. Thank you very much for today. With this, we would like to close today's business performance call.

[END]

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Document Notes

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