Shiseido Company, Limited

FY2024 Financial Results (January-December)

February 10, 2025

Event Summary

[Company Name]	Shiseido Company, Limited
[Company ID]	4911-QCODE
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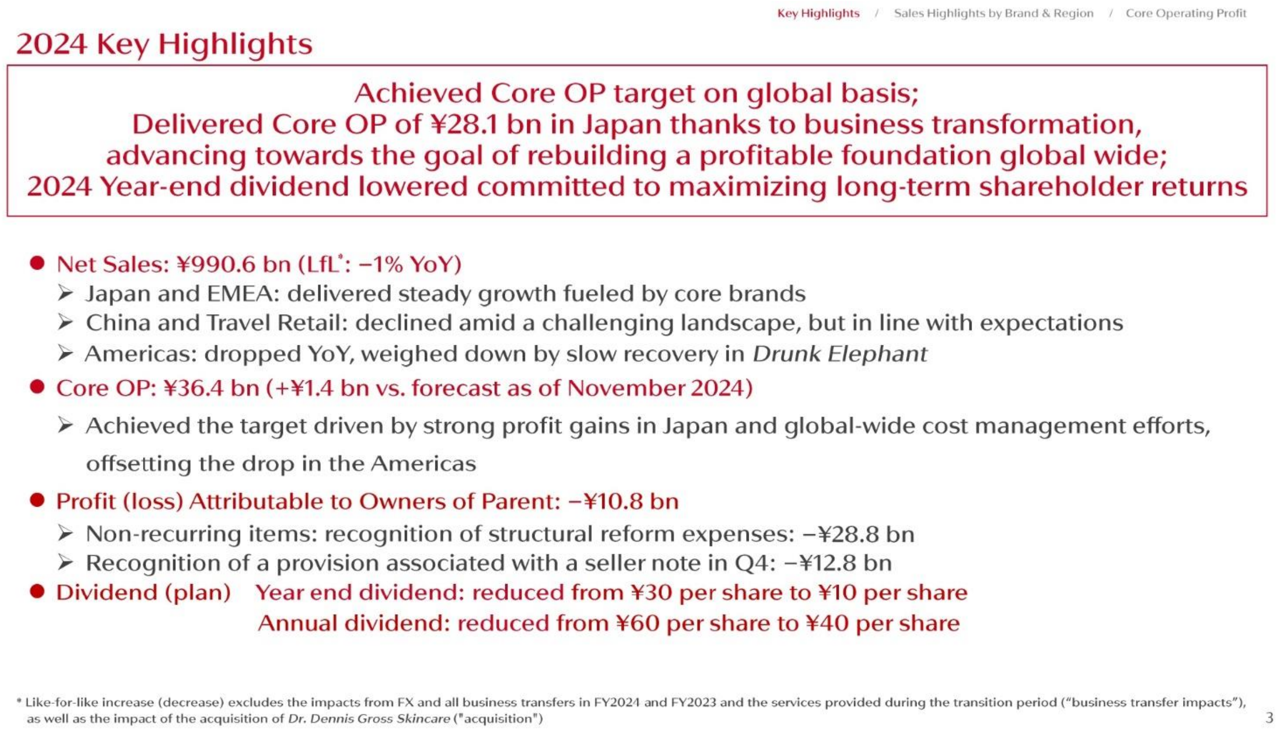
[Event Name]	FY2024 Financial Results (January-December)
[Date]	February 10, 2025
[Time]	17:30 – 18:43 (Total: 73 minutes, Presentation: 38 minutes, Q&A: 35 minutes)
[Number of Speakers]	3

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

Fujiwara: Today, I will first explain the key points of the results for 2024 and the outlook for 2025. And then CFO, Hirofuji, will explain the details of the results, and I will then explain the main issues to be addressed in 2025.



First, page 3. Key points of the financial results for 2024.

Core operating profit for the full year was JPY36.4 billion compared to the revised forecast of JPY35 billion announced in November last year. The fact that we were able to achieve the profit target announced in November despite the difficult environment is a result of the efforts of the entire company working together.

What is particularly noteworthy is the performance in Japan, where we are promoting structural reforms with the aim of achieving over JPY20 billion in 2024 and JPY50 billion in 2025. The actual results for this period was JPY28.1 billion, significantly exceeding the target.

In Japan and Europe, the virtuous cycle of growth and improved profitability through selection and concentration is steadily proceeding producing results. Going forward, we will expand the structural reform globally, working to improve the balance of profits in each region and establish a global earnings base.

Regarding dividends, which we said in November last year that we would closely monitor and examine the situation after repeated discussion from the perspective of maximizing long-term total shareholder returns, we have decided to reduce the year-end dividend from the planned JPY30 per share to JPY10 per share, the details explained in the slide later.

Consolidated sales, excluding the impact of foreign exchange and business transfers in real terms, increased 4% YoY in Q4 and decreased 1% YoY for the full year. In Japan and Europe, we continue to see strong growth centered on our core brands. In China and Travel Retail, consumer spending remained sluggish, but the revenue decline was in line with our expectations. In the Americas, sales declined due to the delayed recovery of Drunk Elephant.

We secured a core operating profit of JPY36.4 billion, but due to structural reform expenses and provisions for financial expenses, net income attributable to owners of the parent company was deficit of JPY10.8 billion. I will explain this in more detail.

Regarding non-recurring items, we recorded JPY28.8 billion in expenses for structural reforms, which was largely in line with our plan. On the other hand, the provision was not included in our forecast as of November. We divested three brands, including Bare Minerals in 2021. And as a result of careful examination of the sellers' note, which deferred a portion of the purchase price, we recorded a provision for this item, considering the possibility of debt recovery. This is a one-off factor and does not involve any actual cash. We will continue to focus on recovering the full amount. For details, please refer to appendix 15 of this document.

Key Highlights / Sales Highlights by Brand & Region / Core Operating Profit

2025 Forecast

Core OP: minimum target of ¥36.5 bn in line with 2024, aiming for further boosts;
Profit attributable to owners of parent and Free Cash Flow set to bottom out, returning to positive;
Complete structural reform actions by the end of 2025 for achieving 7% core OP margin in 2026

(Billion yen)	2024	2025 Forecast	% of Net Sales	YoY Change	YoY Change %	YoY FX-Neutral %	YoY LfL*1%
Net Sales	990.6	995.0	100%	+4.4	+0%	+3%	+4%
Core Operating Profit	36.4	36.5	3.7%	+0.1	+0%		
Non-recurring Items	−28.8	−23.0	−2.3%	+5.8	-		
Operating Profit	7.6	13.5	1.4%	+5.9	+78%		
Profit (Loss) before Tax	−1.3	14.5	1.5%	+15.8	-		
Profit (Loss) Attributable to Owners of Parent	−10.8	6.0	0.6%	+16.8	-		
EBITDA*2	89.6	90.5	9.1%	+0.9	+1%		
Free Cash Flow	−35.3	15.0	1.5%	+50.3	-		
Dividend (yen/per share) (Forecast)	40 Interim: 30 Year-end:10	40 Interim: 20 Year-end: 20					

Net Sales YoY(LfL)*1
1H: −low single%
2H: +high single%

Non-recurring Items: −¥23.0 bn
- Organizational reforms, productivity improvement
- Selection and concentration of brands & SKUs

Exchange rates for 2024: USD/JPY: 151.5 EUR /JPY: 163.8 CNY/JPY: 21.0
Exchange rates for 2025: USD/JPY: 145 (−4.3%) EUR /JPY: 155 (−5.4%) CNY/JPY: 20 (−4.9%)

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

4

Next, I will explain the full year forecast for 2025 on page 4.

Net sales are expected to be JPY995 billion and the real growth rate, excluding the impact of foreign exchange fluctuations is expected to increase by 4%, which is unchanged from the assumptions in the action plan announced at the end of November. Core operating income is expected to be JPY36.5 billion based on the belief that previous year's level must be achieved, but we will aim for further increase.

In addition, because of the figure for 2024 included one-off positive factors, the increase in profit will actually exceed JPY10 billion. Additional information is provided on page 14 of the supplementary materials, so please refer to it.

Regarding the H1 and H2 balance of sales, in H1, we expect a low single-digit percentage decline in sales, mainly due to the high hurdle of the previous year in the Travel Retail . But in H2, we plan to achieve high single-digit percentage growth, driven by growth in Japan and Europe and the recovery in the Americas.

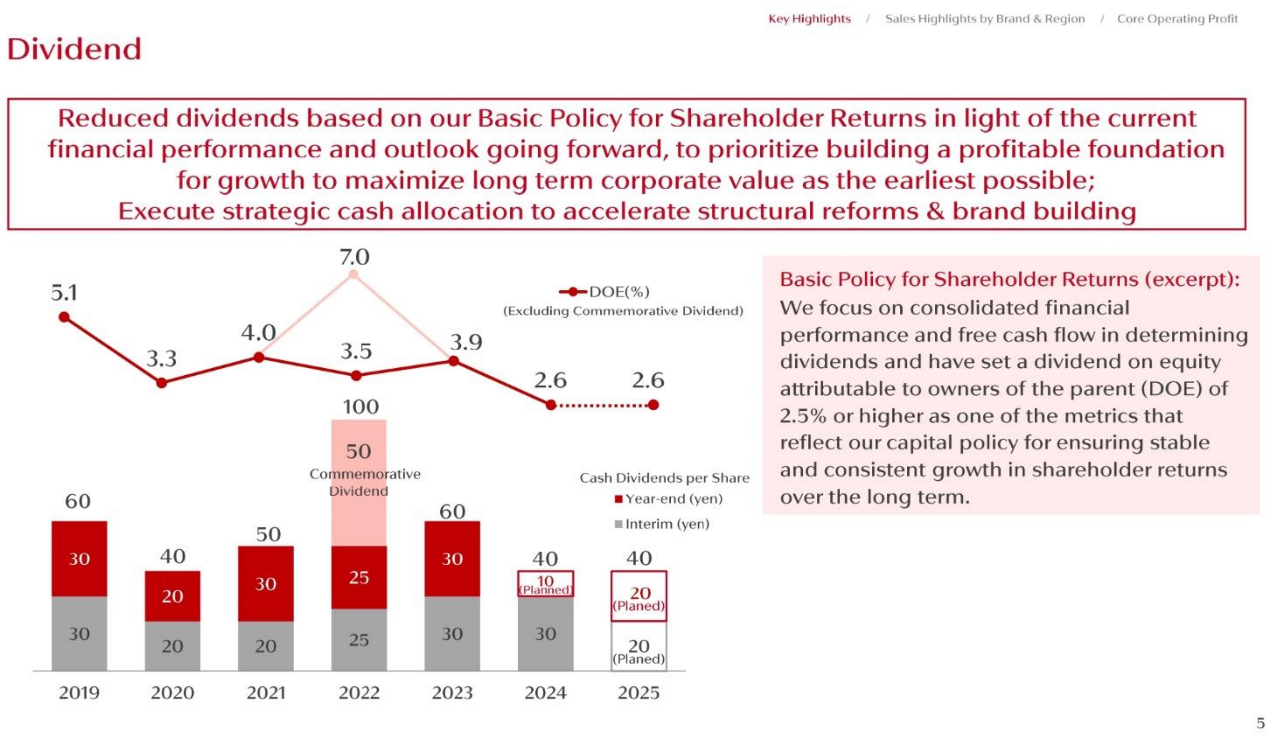
Core operating income is roughly half the plan. The impact of the revenue decline is that H1 will be covered mainly by the effect of reducing personnel costs in Japan. Although we expect revenue increase in H2, we also expect to see an increase in expenses such as a reaction to one-time positive factors of the previous year and increased marketing investment. Therefore, as in the previous year, we expect there to be no significant difference in profit levels between H1 and H2.

Regarding the outlook of regional profits, we are forecasting significant profit growth in Japan and the Americas. In Japan, we are aiming for JPY50 billion in profit, thanks to the launch of new products, price increases and an improvement of product mix, which will lead to an expansion in the gross profit as well as the effect of personnel reduction, though the early retirement support plan.

In the Americas, we will make up for the profit decline from the previous year as much as possible, including by achieving a recovery in Drunk Elephant, driving growth in brand Shiseido and Dr. Dennis Gross Skincare and optimizing costs. Regarding China and Travel Retail, as I explained at the end of November, we are anticipating real declines in revenue and profit.

We are expecting a loss of JPY23 billion from nonrecurring items, mainly structural reform and related expenses set out in the action plan. We will mainly work on organizational reform, productivity improvement and brand SKU selection and concentration, et cetera, and lay the foundation for achieving the core operating profit margin of 7% in 2026.

Free cash flow is expected to turn positive due to a decrease in non-recurring items YoY and the fact that we do not have any major M&A plans for 2025.



Next, on page 5, I explain our dividend policy.

In terms of business performance and cash generating ability, both the 2024 results and the 2025 forecast are not at the level we aim as for a global beauty company over the long term. And we are in a situation where we should drive improvements through further action.

In the two-year period of 2025 and 2026, we believe that the top priorities for cash allocation to improve corporate value should be: one, strategic investment in growth areas; and two, investment in structural reform.

In order to respond to the uncertainty of the business environment, we believe that it is essential to secure financial flexibility and to prioritize the implementation of the key measures set out in the action plan in order to build the foundation for growth, with the aim of maximizing long-term corporate value and total shareholder return.

As a result of careful consideration of the current situation, we have decided to reduce the year-end dividend from JPY30 per share to JPY10 per share, and we will submit this proposal to the general meeting of shareholders in March.

In addition, the annual dividend for 2024 will be JPY40 per share, the same as in the previous year and in line with our current dividend policy. The dividend level will be in line with the DOE target of 2.5% or more.

We take very seriously the fact that this dividend cut will cause concern among our shareholders. We will take responsibility for doing what we need to do in this critical two-year period and for conducting business operations that live up to the trust of all our stakeholders.

From now on, we will work to recover our business performances and improve capital efficiency by accelerating the completion of the structural reforms and strengthening our brand power. And in line with the recovery of profits and cash flow, we will consider expanding shareholder returns, including an increase in dividends.

2024 Executive Summary

(Billion yen)	2023	% of Net Sales	2024	% of Net Sales	YoY Change	YoY Change %	YoY FX-Neutral %	YoY LfL*1 %
Net Sales	973.0	100%	990.6	100%	+17.5	+2%	−3%	−1%
Core Operating Profit	39.8	4.1%	36.4	3.7%	−3.5	−9%		
Non-recurring Items	−11.7	−1.2%	−28.8	−2.9%	−17.1	-		
Operating Profit	28.1	2.9%	7.6	0.8%	−20.6	−73%		
Finance costs, etc.	2.9	0.3%	−8.8	−0.9%	−11.7	-		
Profit (Loss) before Tax	31.0	3.2%	−1.3	−0.1%	−32.3	-		
Income Tax Expense	6.9	0.7%	8.0	0.8%	+1.2	+17%		
Profit (Loss) Attributable to Owners of Parent	21.7	2.2%	−10.8	−1.1%	−32.6	-		
EBITDA*2	91.8	9.4%	89.6	9.0%	−2.3	−2%		
Free Cash Flow	53.5	5.5%	−35.3	−3.6%	−88.8	-		

Net Sales:	YoY (LfL*1) −1%	Japan and EMEA continued strong growth; China, Travel Retail, Americas declined YoY
Core Operating Profit:	YoY change −¥3.5 bn	Delivered benefits from structural reforms and agile cost management, but were offset by the declines in Travel Retail and Americas
Non-recurring Items:	2024 −¥ 28.8 bn	Costs incurred by structural reforms mainly in Japan and China
Profit (loss) Attributable to Owners of Parent :	2024 −¥ 10.8 bn	Recognized a provision of −¥12.8 bn in Q4 as finance costs associated with a seller note
Free Cash Flow :	2024 −¥ 35.3 bn	Negative mainly due to acquisition costs of −¥48.9 bn associated with *Dr. Dennis Gross Skincare*

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

Hirofuji: From here, I will explain the details of the results. Page 6, please. This is a summary of the P&L results for 2024. The contents have been explained by CEO, Fujiwara earlier.

Net Sales YoY by Region: Japan Delivered Another Year of +10% Growth; EMEA Enjoyed Solid Growth Fueled by Key Brands; Ongoing Headwinds Americas; Achieved Global Annual Sales Growth of +6% excl. China and Travel Retail

Like-for-like*

	2023 (vs. 2022)					2024 (vs. 2023)				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Japan	+8%	+9%	+6%	+17%	+10%	+20%	+7%	+5%	+7%	+10%
China	−3%	+20%	−9%	−21%	−5%	−3%	−9%	−13%	+5%	−5%
Asia Pacific	+16%	+12%	+15%	+8%	+13%	+5%	+7%	+2%	−3%	+2%
Americas	+30%	+18%	+10%	+9%	+15%	+9%	−20%	−9%	−7%	−7%
EMEA	+22%	+11%	+15%	+26%	+19%	+17%	+6%	−7%	+16%	+8%
Travel Retail	−4%	−4%	−25%	−43%	−20%	−31%	−15%	−38%	−9%	−24%
Total	+7%	+10%	−2%	−6%	+2%	+3%	−4%	−8%	+4%	−1%

* Excluding impacts from FX, business transfers and acquisitions

Next, page 7 shows the sales trends by region.

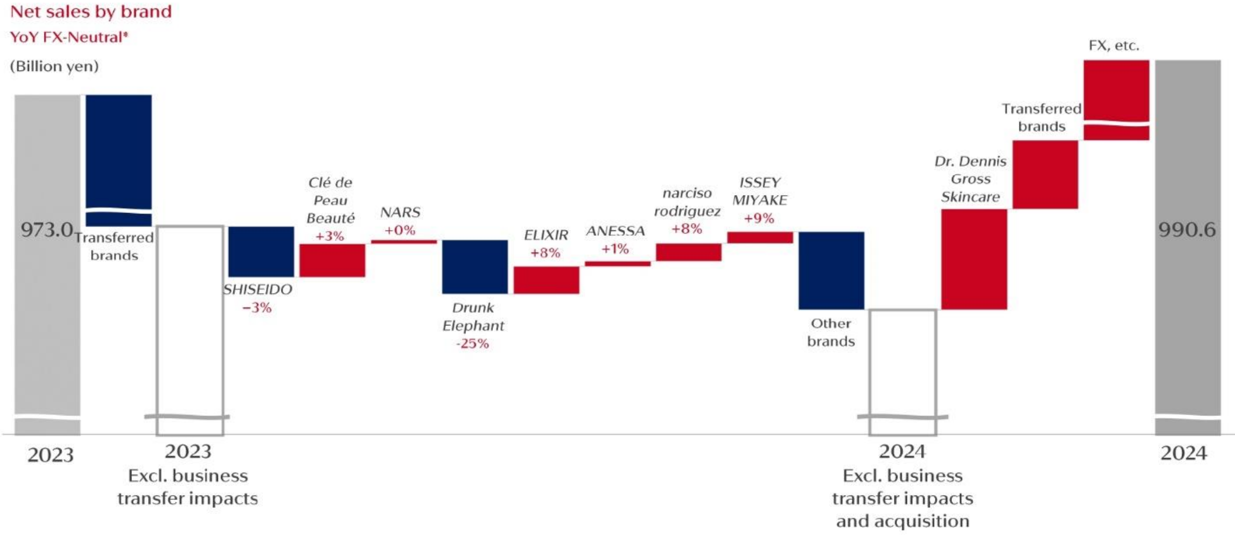
Japan and Europe have grown steadily. And in particular, Japan has achieved 10% growth for two consecutive years, exceeding the high hurdle of the previous year as the recovery after the Covid has run its course.

In China, our sales have been low due to the impact of treated water in the previous year. But sales increased for the first time in five quarters, and a YoY sales decline in Travel Retail has also recovered to a single-digit range.

Although we are still cautious about the outlook for 2025, we are positive about the fact that there is no further deterioration, and we are starting to see signs of bottoming up. The Americas continue to struggle.

The overall results of the year were a negative 1%, excluding China and Travel Retail, we achieved strong growth of 6%, and we are continuing to ship to an appropriate regional portfolio.

Net Sales by Brand: *Clé de Peau Beauté* and *NARS* Grew Significantly in Q4; *ELIXIR* and Fragrances Maintained Strong Momentum, while *Drunk Elephant* Suffered Slow Recovery



* YoY change (%) for each brand is calculated based on foreign exchange rate assumptions at the beginning of each fiscal year which excludes impacts from FX fluctuations and other

8

Next on page 8 is the net sales by brand.

From this time, we have separately broken down the Core 3 and Next 5 brands, which we will focus on in the action plan for 2025 to 2026.

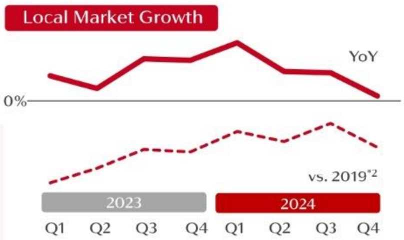
Brands with a significant sales contribution from China and Travel Retail were affected by the overall market challenges. However, even within this, Cle de Peau Beaute accelerated growth in both Japan and China, continuing to perform steadily.

NARS recovered in the Americas in Q4 and turned to revenue growth for the year. ELIXIR maintained high growth, mainly in Japan, while Narciso Rodriguez and ISSEI MIYAKE maintained strong growth, particularly in EMEA due to success in active investment.

On the other hand, Shiseido and Drunk Elephant experienced a decline in sales throughout the year.

Japan: Delivered Tangible Benefits from Structural Reforms
Growth in Key Focus Areas with Share Gain, Benefitting from Selection and Concentration Strategy Built upon Solid Brand Foundation

- Q4 Market:
  - Local: grew at a slower pace due to elevated prior year comparison
  - Inbound: beauty consumption continued to grow at a moderate pace although the number of foreign visitors hit record high



- Shiseido:
  - Consumer Purchases*1

		Q4		FY
Business total	:	+high single%	/	+high single%
Local	:	+mid single%	/	+high single%
Core Brands*3	:	+high single%	/	+low teen%

- fueled growth driven by new product launches leveraging cutting-edge innovations and strategic marketing focused on new market creation

		Q4		FY
• *SHISEIDO*	:	+high single%	/	+mid 20%
• *Clé de Peau Beauté*	:	+low teen%	/	+high teen%
• *ELIXIR*	:	+high single%	/	+mid teen%
• *d program*	:	+high single%	/	+low teen%
EC	:	+high 20%	/	+high 20%
Inbound	:	+over 30%	/	+high teen%

SHISEIDO

*1 Excluding business transfer impacts *2 Adjusted for the effects of consumption tax hike in 2019 *3 *SHISEIDO, Clé de Peau Beauté, NARS, ELIXIR, ANESSA, d program, MAQuillAGE*

9

Next is page 9 on the Japan business.

In Q4, the local market growth experienced a slight slowdown in pace of growth due to the high-performance level of the previous year.

As for inbound demand, the number of tourists to Japan hit a record high in October and December, yet the cosmetic purchases only showed moderate growth. Despite this, our business in Japan maintained strong growth in the low teens for core brands, expanding market share.

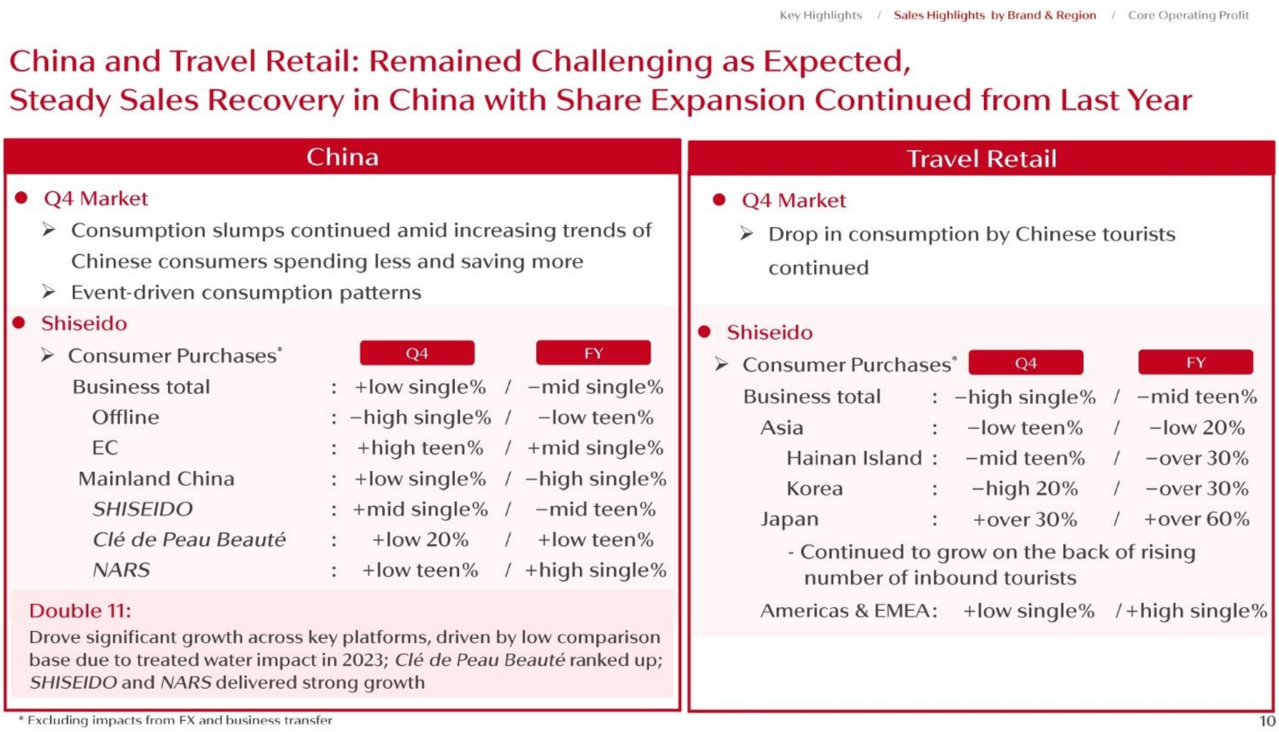
New product launches such as ELIXIR's The Serum and Shiseido's Foundation Serum highlighted our strength in advanced technology, driving sales through a new value creation marketing that strategically targeted new markets. Cle de Peau Beaute also continued to see a steady increase in loyal consumers even after the price increase in April.

One of the brands we focus on in Japan, d program, further clarified its marketing strategy and achieved high growth with strong returns. We call it communication innovation and the success of SHISEIDO Men, where changing the way we communicate about existing products led to sales growth and became a model that was applied to other brands.

Additionally, we advanced our touch point strategy and continue to win at places for people gather approach with growth in key channels driving target achievement even after significant personnel reductions at the end of September.

E-commerce sales achieved growth in the high 20% range due to brand expansion and increased digital advertising investments.

Regarding inbound demand, with the increase in the number of visitors to Japan, we are steadily expanding. Moving forward, we will implement measures that align with the purchasing trends of tourists.



Next is page 10, China and Travel Retail .

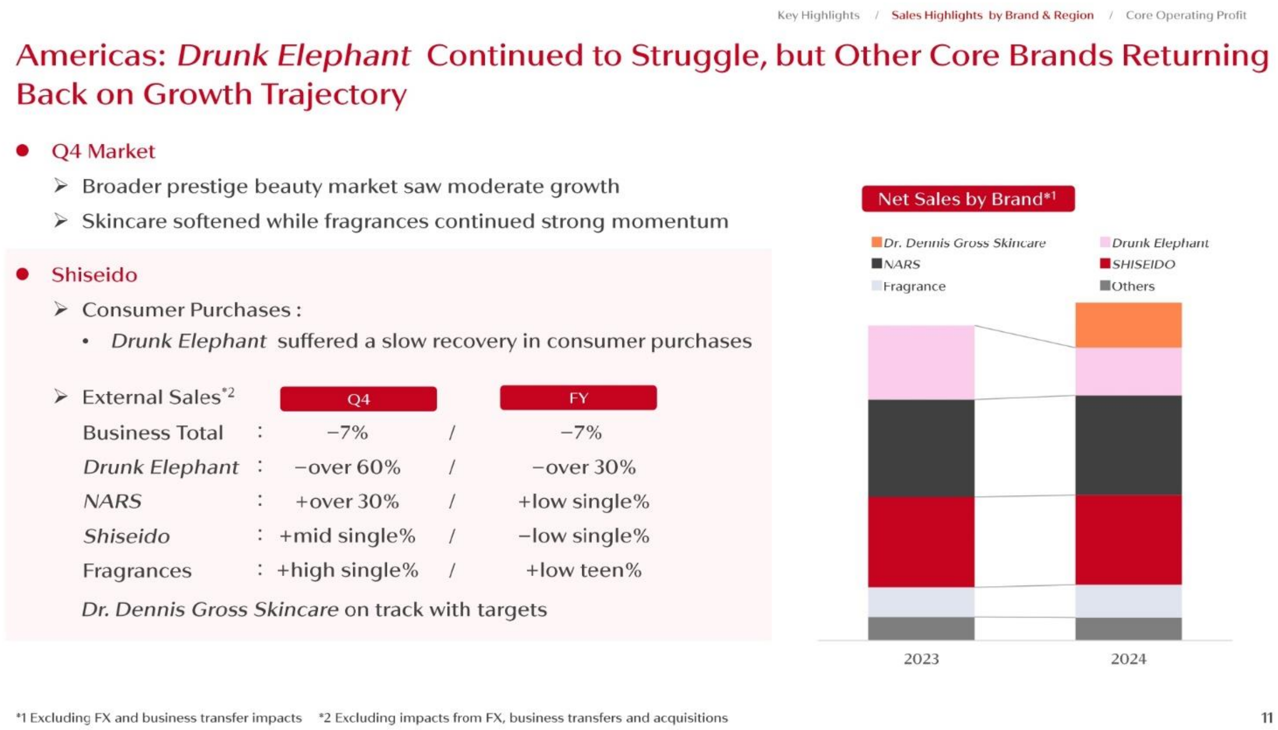
The China market continues to face sluggish consumption and with rising price sensitivity, event-based consumption such as Double 11 accelerated. Despite these challenging market conditions, we are focused on balancing growth and profitability while enhancing brand value.

As a result, sales turned positive in Q4. Off-line sales faced a tough environment throughout the year, but Cle de Peau Beaute achieved positive growth in Q4. And including e-commerce sales, we recorded high growth in the low 20% range.

E-commerce also showed a steady recovery in Q4 with significant growth on major platforms during Double 11, especially rebounding from the treated water impact marking solid growth into the high teen %.

Both Shiseido and NARS turned into growth with NARS particularly showing year-round growth, continuing to expand its sales scale in China. As a result, despite the continuous difficult environment, our strategy to quickly respond to consumer changes successfully led to market share gains over the year, which we consider a major achievement.

Next is Travel Retail. The decline in consumption by Chinese tourists has continued, creating a tough business environment as expected. We have further reduced inventory as of year-end compared to three months ago. Travel Retail in Japan continues to perform well with a recovery in the number of store visitors. We will continue our efforts in strict inventory management and sound business health in the mid- to long-term.



Next is page 11, the Americas.

The supply shortages up until H1 of this year led to consumer attrition. In H2, we focused on strengthening marketing investments for key brands to drive recovery. However, Drunk Elephant's consumer purchase recovery was slower than expected, resulting in a revenue decline below projections.

We attribute this to factors such as intensified competition in the market surrounding Drunk Elephant and a lack of targeted promotions. In 2025, we will focus on strengthening Drunk Elephant's brand marketing and clarifying its target consumer base in order to turn things around.

On the other hand, production in the Americas has stabilized and NARS steadily recovered. Fragrances also performed well, benefiting from favorable market conditions. All other major brands returned to growth in Q4. Additionally, Dr. Dennis Gross Skincare acquired in February is progressing as initially planned.

Next is page 12 on EMEA and Asia Pacific.

EMEA market continued to grow in all categories. In Q4, the shipment adjustments for the holiday season contributed positively with the strong performance of new product launches, allowing the Company to reach the sales as planned.

Selection and concentration in focused brands, markets and channels demonstrated results, capturing strong growth for the full year as well.

Asia Pacific continued to perform well with ANESSA, Cle de Peau Beaute, but the slowdown in Taiwan and South Korea markets impacted the sales, leading to a sales decline in Q4.

Key Highlights / Sales Highlights by Brand & Region / Core Operating Profit

FY2024 Core Operating Profit by Region

Japan: Achieved core OP margin of approx. 10%: profitability in Japan improved significantly, benefitting from higher gross profit with better mix via selection and concentration coupled with structural reform benefits, while inbound sales halved from its peak

China: Increased YoY; decline in sales more than offset by COGS / fixed cost reduction and structural reform benefits

Asia Pacific: Increased YoY driven by gross profit gains from higher sales

Americas: Declined YoY due to drop in gross profit driven by lower sales

EMEA: Increased YoY driven by gross profit gains from higher sales

Travel Retail: Declined YoY due to drop in gross profit driven by lower sales

Other / Adjustments: Declined by lower gross profit driven by lower intersegment sales to China and Travel Retail, and the impact of change in elimination of unrealized gains, etc.

(Billion yen)

Core Operating Profit (Core OPM)	2023		2024		YoY
Japan*	1.3	(0.5%)	28.1	(9.9%)	+26.7
China	7.0	(2.8%)	12.3	(4.8%)	+5.3
Asia Pacific	5.1	(7.1%)	6.0	(8.0%)	+0.9
Americas	11.2	(9.7%)	0.2	(0.2%)	−11.0
EMEA	3.3	(2.7%)	3.7	(2.6%)	+0.3
Travel Retail	17.1	(12.9%)	5.0	(4.6%)	−12.1
Other*	−22.8	(−9.0%)	−24.9	(−10.2%)	−2.1
Adjustments	17.6	-	6.0	-	−11.6
Total	39.8	(4.1%)	36.4	(3.7%)	−3.5

* In the fiscal year 2024, part of the business results in the Japan Business were reclassified into the Other Segment. This classification has been reflected in the results for the fiscal year 2023

13

Next is page 13, the core operating profit by region.

In Japan, in addition to increased sales, significant profit growth was achieved, contributed by gross margin improvement from mix improvement as a result of selection and concentration and price increase as well as the impact from structural reform.

Inbound sales are still about half of the peak level in 2019, but profitability in the local business has improved, achieving core OP margin of approximately 10%. The business turned from a loss in 2022 to a profit in 2023 and by 2024, growing to realize double-digit margin. This growth has led to confidence for the entire Company and a result that can be expanded horizontally to other regions.

In China, despite the negative real growth rate of minus 5%, marketing investments were maintained, and structural reforms such as the closure of unprofitable stores and workforce reductions led to increased profits. Despite the continued uncertain market environment, efforts are underway to build a revenue base that is less affected by external factors.

In EMEA, while expenses were kept under control, marketing investments aimed at enhancing brand value were continued, leading to increased sales.

Travel Retail saw a significant decline in profits. Furthermore, the decrease in Travel Retail sales also had a substantial impact on the other segments with drop in gross profit driven by the decline in intersegment sales.

Regarding adjustments, changes in elimination of unrealized gains led to a decrease in profit. Last year, primarily in anticipation of the deterioration of the Chinese and Travel Retail markets, inventory reduction was implemented, which positively impacted elimination of unrealized gains. This year, the reversal of that effect has occurred, becoming a factor that pushed profits down. This concludes the financial performance of 2024.

One point of progress to report. We have received numerous requests regarding the difficulty in comparing the core operating profit by segment over the years due to the annual changes in internal transaction prices related to transfer pricing adjustments.

To clearly compare the actual profit margins and their improvement progress across segments YoY, we are in the process of revising the definitions. Starting with the Q1 results to be announced in May, we plan to disclose the results under the new definitions. Please look out for further updates on this. That is it for me. Thank you.

Fujiwara: Please turn to page 15. This is the content we explained when we announced the action plan at the end of November.

Over the next two years, we will work to strengthen the foundations of our core brands while also establishing a highly profitable structure to support future growth.

Once again, we see 2025 as a year of competition. Our theme for this year is to do everything we need to do. We are already in the second month of 2025, and we will move forward with our measures with a sense of urgency.

Next, please turn to page 16. Over the next two years, we will continue to implement structural reforms, but we will also accelerate the growth of our key brands through focused investment based on growth potential, profitability and competitive advantage.

In 2025, we will increase marketing investment by JPY10 billion YoY, and we will invest all of this in the Core 3 and Next 5, and we will aim to steadily expand the market share by building the value of our key brands, which have high profitability and growth potential and strengthen our base of loyal consumers.

As a result, we will turn around a negative 1% sales growth Like-for-Like in 2024 to a positive 4% in 2025.

Next, from page 17, I will explain our brand strategy, focusing on the three core brands that will be the pillars of our future growth. First, let us look at the growth of strategy for brand SHISEIDO. In 2024, SHISEIDO experienced a slowdown in China and Travel Retail, which together accounted for around half of its sales and achieved strong growth in Japan, with sales in the high 20% range and in Europe with sales in a high 10% range.

Vital Perfection has secured a position in the market as an expanding mainstay line of anti-aging products. In the top four markets in Europe, Vital Perfection has achieved in the first skincare product ranking by line. The strategic allocation of the investments through selection and the concentration is paying off. Thanks to the parts of global ambassador Anne Hathaway, Vital Perfection is also performing well in the Americas.

In addition, the Essence Skin Glow Foundation, which was a big hit last year, established a new market for foundation serums. In Japan, not only achieved the number one share of the department store foundation sales, but also gained many new younger users.

In 2025, we will introduce NEW ULTIMUNE, which will be launched in March as a major growth driver on a global scale. This product will be launched in almost simultaneously around the world, and we are working to maximize sales with the sense of unity as a company-wide initiative. In terms of regions, we expect to see continued steady growth in Japan as well as accelerated growth in the Americas, Europe and Asia Pacific.

In addition, we will be strengthening the Future Solution LX line, our top-of-the-line series in China, and we plan to launch new sun care products equipped with the latest technology in the Americas. In this way, by implementing unified global measures and developing products that match regional characteristics, we are ready to achieve more substantial growth for the brand as a whole.

Next, please turn to page 18. As CFO Hirofuji explained earlier, the growth of Cle de Peau Beaute is being driven by Japan, where growth in the low twenty % has achieved. As we have also reported, the brand has also achieved positive growth in the challenging Chinese market, thanks to its strong brand value as a high-end brand.

Base makeup, which has an overwhelming strength in acquiring new consumers is performing well, contributing to the expansion of the brand's loyal consumer base.

In addition, The Serum, which was relaunched in September last year, has received high praise, including being ranked first at the best cosmetics product in major beauty magazines in Japan, and the number of skincare users has also increased.

This year, we plan to launch the product in China as well, and we will strengthen strategic marketing for core skincare line, key radiant care, et cetera.

We will strengthen our position as a luxury brand by further enhancing our provision of luxury experience values such as base makeup, which is our strength, and our holiday collections and treatment services are promoting events and a special expansion in countries around the world.

Next, please turn to page 19. NARS has strong equity and has been able to achieve steady growth even in a challenging market environment in China. But in 2024, there were some shortages due to temporary production decline, and it was not possible to achieve major publicity and dramatic growth.

In 2025, we will ensure growth by positioning base makeup, the foundation of the brand as a hero product, which also is increasing in the brand's topicality by boldly investing in a new innovation campaign to meet the growing global demand for blush and we will turn further speed and amplify this through digital media with the aim of increasing our share of the makeup category.

Bring innovations that deliver new value driven by bold science and technologies

Slow-Aging inspired, a new answer to immunity
The new discovery that "Memory T-Cell" eliminates aging-cells

The fusion of Japanese traditional technology and Fermented Camellia Seed Extract act to promote the "Memory T-Cell"

Prevents stubborn dark spots and controls their deterioration or increasing
Exclusive Triple Active Complex

A new generation mineral sunscreen that transforms into transparent shield

Focused on the relation between modern stress and oxidation
24 Gold Infusion Retinol harmonized

Innovative micro-needle that approaches the effect of aesthetic medicine in safety
Double effect of injection and pressure

20

Next, page 20, we have received feedback that the Company has a strong R&D capability and technological strength, including basic research and has a good lineup of brands. But unfortunately, this is not translating into profitability.

We will firmly provide our consumers with our technological strength and added value in the form of products, and we will also achieve a speedy innovation pipeline that will lead to sales and profits.

This slide shows some of the new products that will be the key to our success in 2025. This is a group of products that will give you the sense of the technological advancement, and we are proud of.

Please look forward to Core 3 and Next 5, the new products that will lead our growth.

Global Brand Strategy: Building a strong foundation for growth

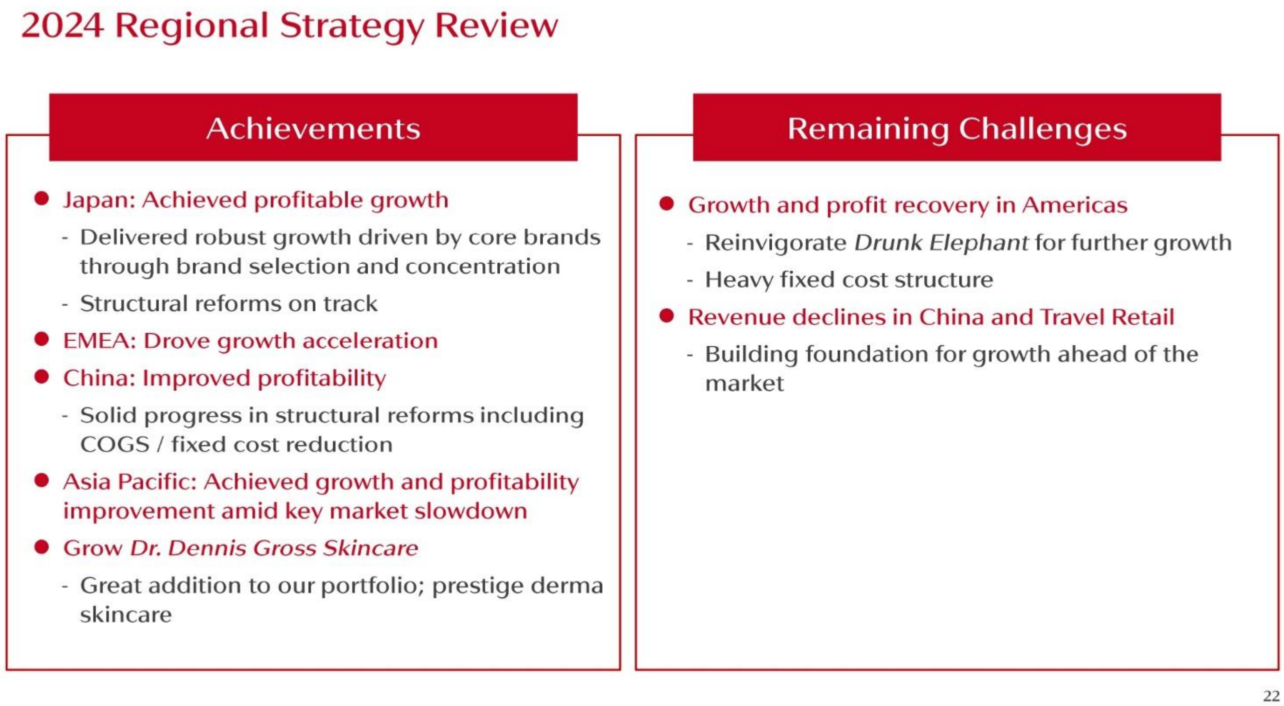
- **Promote strategic optimization across brands and maximize return on investment**
  - Operational excellence in brand management (focusing on Core 3 and Next 5)
    - Standardize monitoring KPIs across brands for faster decision making
    - Drive agility; Strengthen organizational capabilities for swift action ahead of market changes
  - Brand portfolio strategies; strategic investment allocations to drive return
  - Cross-functional approach to address issues and maximize synergies
  - Newly established Global Brand Strategy Department, along with the launch of Brand Committee

21

Next, please turn to page 21. At the action plan briefing at the end of November, we introduced evolution of the global operation structure and building a global one team that leads substantial brand- sustainable brand development.

The Global Brand Strategy Department, which was newly established in January this year and Chief Marketing and Innovation Officer, Mr. Okabe as well as the Brand Committee, which brings together the top brand managers of the Core 3 and Next 5 brands, as shown in the photo, will introduce monitoring and brand strength using common brand indicators, quickly identify growth opportunities and risks across brands and build a system that can take action in response to market changes while also promoting the resolution of common issues across the brands and strengthening functions and allocating investment.

This system will serve as a platform for the entire Company to expand its brand portfolio and develop new brands in the future.



Next, let us move on to page 22, which is about how, in Japan, we steadily implemented Mirai Shift Nippon and significantly improved its profitability from previous year. In Europe, we also achieved steady growth by implementing measures that clearly set up core brands, channels and markets. This has led to improved profitability.

In China, despite the challenging market environment, structural reforms implemented since 2023 have resulted in a reduction of fixed costs, including a decrease in headcount and the closure of unprofitable stores.

In Asia Pacific, growth and profitability improvements have been achieved despite the slowdown in major markets such as Taiwan and South Korea. Dr. Dennis Gross Skincare, which we acquired at the end of 2023, has achieved strong results. The expectations and PMI are progressing smoothly.

On the other hand, the recovery of profitability and growth in the Americas remains an issue, and we will make this our top priority in 2025. We will also work to build a new growth platform that anticipates changes in China and Travel Retail .

2025 Growth Strategy: Americas

- **Explore growth opportunities to capitalize on our diverse brand portfolio**
  - *NARS* : Drive profitable growth – reinforcing core categories with elevated creative content and consumer engagement
  - *SHISEIDO* : Pursue growth opportunities – continue innovation in suncare category and drive key collection such as Benefiance & Ultimune in open-sell retail partners
  - *Drunk Elephant* : Rebuild brand engagement
    - Amplify brand philosophy & product efficacy
    - Recruit new and expand loyal user base through core product offerings plus new innovation at accessible price points
  - *Dr. Dennis Gross Skincare* : Invest more on growth – Drive core peels franchise for recruitment, elevate and amplify brand story
  - *Clé de Peau Beauté* : Solidify luxury brand image
    - Continue innovative partnerships to drive awareness
    - Expand in-store beauty treatments
- **Adopting to shifts in channels**
  - Strengthen key retailer partnerships especially in open-sell*
  - Stretch DTC further including Pure Players
- **Optimization of cost structure and reduction of fixed costs**

* Retail touchpoints based on self-selection model free of beauty counselling

23

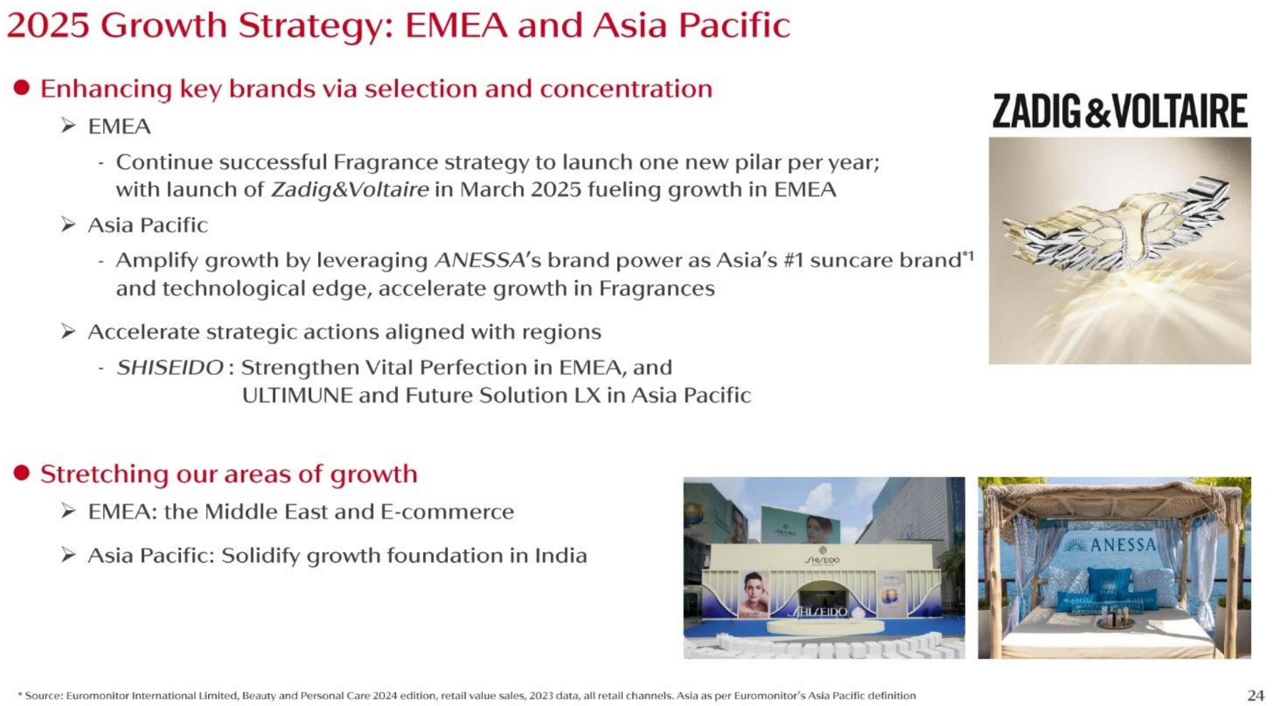
Next, please look at page 23. In 2024, the Americas experienced decrease of 7% Like-for-Like in sales and a significant decline in profit as well. The business performance is falling far below expectations, and we do feel a strong sense of urgency. In the Americas, the rapid diversification of values is accelerating market changes with the rise of emerging brands further driving these shifts.

We will achieve growth in the dynamically changing Americas market by strategically allocating resources across a diverse brand portfolio in response to these changes.

Building on the sustained growth of the strong brand equity of NARS, this year, we aim for significant growth for the brand Shiseido through product innovation and expansion of open sell channels. Additionally, we will capture the expanding trend of scientifically backed high-performance and multifunctional products in the American skincare category through the enhanced investment in Dr. Dennis Gross Skincare.

As for Drunk Elephant, despite fierce competition from other brands, we will work on rebuilding consumer brand engagement for future growth.

By combining the brand's philosophy and product efficacy communications with product innovation, we will focus on acquiring new consumers and expanding our loyal consumer base. We will also accelerate our response to channel changes more swiftly and seize growth opportunities. Also, we will take early actions for cost optimization as well as fixed cost reductions.



Please have a look at page 24. Both EMEA and Asia Pacific businesses will focus on strengthening their already performing core brands. On top of that, in EMEA, we continue each year to concentrate our investment on a key product in the fragrance category.

This year, we plan to launch an innovative new product from Zadig & Voltaire globally next month. In Asia, we will leverage the brand power and technological superiority of our number one sun care brand in Asia, ANESSA, to drive growth, while also strengthening fragrances as a new growth opportunity.

Also as a foundation for future growth, we will focus on strengthening the skin care category in the Middle East. NARS, which we began selling in India, started selling online last month through Nykaa, a premium beauty and wellness retailer in India. We will also expand off-line sales and aim to be among the top five prestige makeup brands in India.

2025 Growth Strategy: China and Travel Retail

- Challenging environment to continue as expected, but accelerate the shift to sustainable growth
- Organizational Agility: Capitalize on growth opportunities with speed and agility
  - Develop local marketing content led by brand holder satellites
  - Improve social marketing and E-commerce capabilities through external partnerships
  - Accelerate integrated operations for China and Travel Retail: Cost efficiency, higher productivity, integrated pricing, and inventory optimization

- China: Rebuilding a sustainable growth foundation focused on key brands
  - *SHISEIDO* : Rebuilding the product portfolio in response to polarized consumption
    - Strategic enhancement of Vital Perfection basic skincare and high functional creams and serums
    - Refreshing the Japanese luxury image with the high-end series Future Solution LX
  - *Clé de Peau Beauté* and *NARS* : Continuing to strengthen core categories
  - *ANESSA* : Recruiting younger consumers through the renewed launch of the Gold Series with cutting-edge latest technology and new formulations

- Travel Retail: Rebuilding sustainable business foundation
  - Japan and Western countries: Enhancing synergies with local markets while targeting non-Chinese travelers
  - Shifting focus on growth driven by tourists

25

Next, please have a look at page 25. For China and Travel Retail businesses, we have developed a growth strategy based on the assumption of a difficult environment.

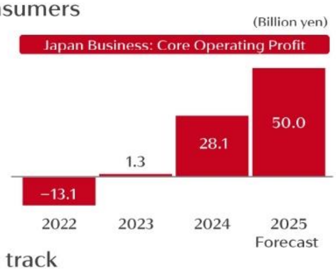
The key point of growth is strengthening organizational capabilities to quickly respond to changes in consumer trends and realize growth opportunities. We will advance the development of original content locally through newly established brand holder satellite offices and enhance our social marketing and commerce operational capabilities through collaboration with external partners, increasing the impact of communication and investment effectiveness of core brands.

To stabilize the market, we will accelerate the integrated operation of the China and Travel Retail Businesses. For brand SHISEIDO, which faced growth challenges, we will restructure the product portfolio to respond to the polarization of consumption and work on stabilizing the business foundation while enhancing the prestige image.

In China and Travel Retail, we are not setting overly ambitious growth targets, but rather prioritizing strengthening the brands and concentrating our efforts on these activities.

Progress and Next Steps: "Mirai Shift NIPPON 2025"

- **Sustainable growth:**
  - ➢ Ongoing enhancement of core brands and hero SKUs
  - ➢ New market creation through strategic marketing
    - Continue to deliver new values and new markets, personalized approach to consumers
  - ➢ Continuous strategic price increases
  - ➢ Consumer touchpoint strategy
    - Achieve growth at key touchpoints attracting consumers at each channel
    - Accelerate EC sales growth, ongoing engagement with each platform, OMO reinforcement



- **Building a profitable foundation:**
  - ➢ Profit boosting initiatives
    - Structural reform benefits: ¥8.5 bn in 2024 and ¥16.5 bn in 2025 progressing on track
    - SKU optimization: Reduced #of SKUs by 20% in 2024 vs. 2022 – ongoing optimization
    - Upcoming FOCUS go-live in Japan: 2H 2025, streamlining the current system
- **Human capital transformation:**
  - ➢ New organizational & management structure
    - Delegate more responsibility to the front, create simple and flat organization, evolve operational framework
    - Self-innovation, recognize individuals based on their contribution to profits
    - Executive vice president Nakata will drive organizational strength rich experiences domestic and international

Shiseido Japan
Executive vice president
Koji Nakata

26

Next is page 26. For the Japan Business in 2025, there will be no significant changes to the strategy similar to 2024. With the execution of Mirai Shift Nippon 2025, the sales ratio of the core seven brands has increased to the 60% range and hero products are achieving strong growth, resulting in improvements in the product mix.

As a result, the strategy is evolving as planned. From a profitability perspective, in 2024, we achieved JPY28.1 billion in core operating profit with a core operating profit ratio of 10% level.

In addition, the organizational culture of our Japan business is showing signs of change. We are committed to continuous self-innovation, questioning the status quo and driving transformation. I am confident that instilling this momentum will lay the foundation for the future growth of our Japan business.

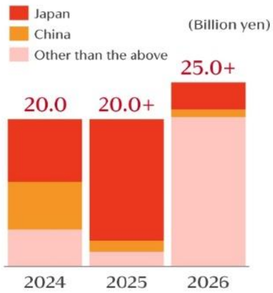
Building on the foundation established in 2024, in 2025, our entire organization will come together to take a further step in transformation, aiming to create a core operating profit of JPY50 billion.

This year, we have made significant organizational changes with a focus on accelerating responsibility and authority delegation for rapid execution, we have established 19 strategic execution units to operate in parallel. The organization has been streamlined from a multi-layered structure to a leaner and flatter one. Each leader now has a greater decision-making authority for resource allocation and is entrusted with clearer profit responsibilities while also being given more authority at the operational level.

Also, the design of our performance evaluation system has been adjusted to better reflect contribution to profit through individual evaluation and compensation. Furthermore, Executive Vice President, Nakata, who brings extensive business experience, both in Japan and overseas, has joined us. And together, we will lead a strong organization that delivers new value originating from Japan.

Cost Structure Transformation with "No Sacred Cow"

- Achieving cost reduction benefit of ¥40 bn as planned for 2024-2025
- Complete all actions by the end of 2025, achieving ¥25 bn in 2026
- Benefit maximization: Sharpen our approach, reinforce strategic actions
  - ➢ Expanding targets beyond Japan and China to bring global transformation
  - ➢ Agile top-down approach benchmarking on global competitors



		2024	2025	2026	2024-2026 Total
COGS	• Selection and concentration of brands and SKU, strategic price increases • Reduction in raw material costs and E&O inventory, improvement productivity through FOCUS go-live • Automation of factory production lines, etc.	7.0	3.0	7.0	17.0
Marketing investments	• Optimization of promotional costs, increase marketing ROI • Global centralization of in-store materials production • Enhancement of global procurement functions for indirect materials • Samples: Reduction of inventory, expansion of local production and operational efficiency	3.0	2.0	1.0	6.0
Personnel expenses	• The implementation of ERIP* in Japan in 2024 • Optimize organization structure, improve productivity • Streamline corporate functions to enhance operational efficiency, etc.	6.0	10.0	10.0	26.0
Other SG&A	• Reduction of outsourcing cost • Reduction of depreciation: System optimization and integration, selective new investments • Other cost savings: Efficient office management, etc.	4.0	5.0	7.0	16.0
Total		20.0	20.0+	25.0+	65.0+

* Early retirement incentive plan

27

Next is page 27. Regarding global cost reduction, we achieved the planned JPY20 billion effect in 2024. And for 2025, we are confident in achieving the same target of JPY20 billion due to the significant contribution of already implemented actions. Starting this year, CFO Ms. Hirofuji will directly oversee the initiative and with an organizational structure focused on global cost reduction, we will begin new cost reduction efforts aiming for steady achievement.

Actions for realizing the JPY25 billion effect in 2026 are currently underway with completion targeted within 2025. We will announce the specifics when they are finalized and ready to be shared. As for each initiative, the scope, which was previously focused on Japan and China, has now expanded globally.

In 2026, the Americas and global headquarters will make up a significant portion of the efforts. Additionally, our goal is to establish a strong top-down approach benchmarked against global competitors, aiming for profitability level at a level where all regions can compete with global companies.

The initiatives that have been developed are progressing at a pace that will allow us to realize the effects of all measures by Q2 of 2026 at the latest.

Accelerate Asset-light initiatives
Achieving Global Cross-Regional Asset Optimization

- **Factory and production lines**
  - Build optimal and competitive supply network structure
  - Optimize value chain
  - CAPEX: Increase productivity via strategic and selective investments

- **Real estate properties, office tenants, lease, etc.**
  - Through review on all owned or leased properties globally, maximize asset utilization
  - Gain on sale of fixed assets by streamlining real estate assets
    - 2023 ¥13.3 bn Further restructuring achieved particularly in Japan & global HQ
    - 2024 ¥ 0.7 bn Divestiture of China-related real estate properties

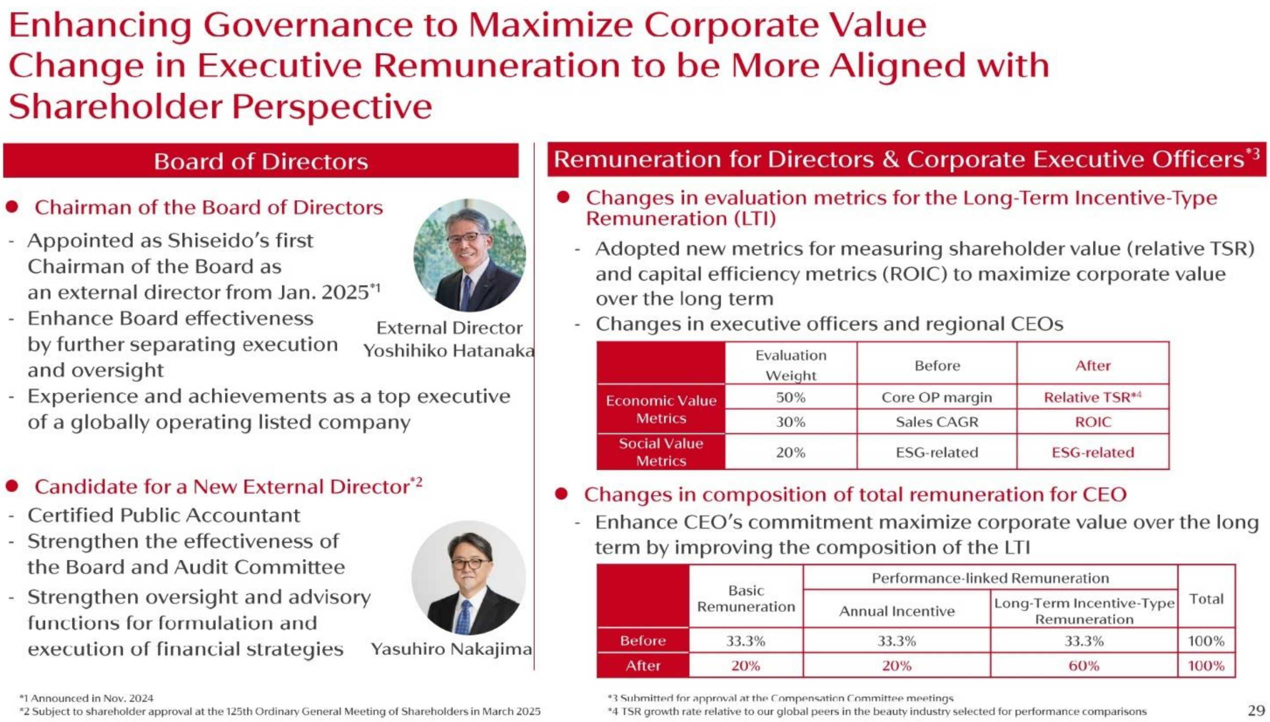
Plan to announce further progress in a timely and appropriate manner

28

Next is page 28. We are currently promoting development of a competitive company-wide optimized production system and the optimization of the value chain at our factories.

We are reviewing real estate, office spaces and leases globally, whether owned or rented and promoting efficient utilization.

We have already implemented real estate rationalization, and we plan to take additional measures in the future. We will announce the specifics of each initiatives as they are finalized.

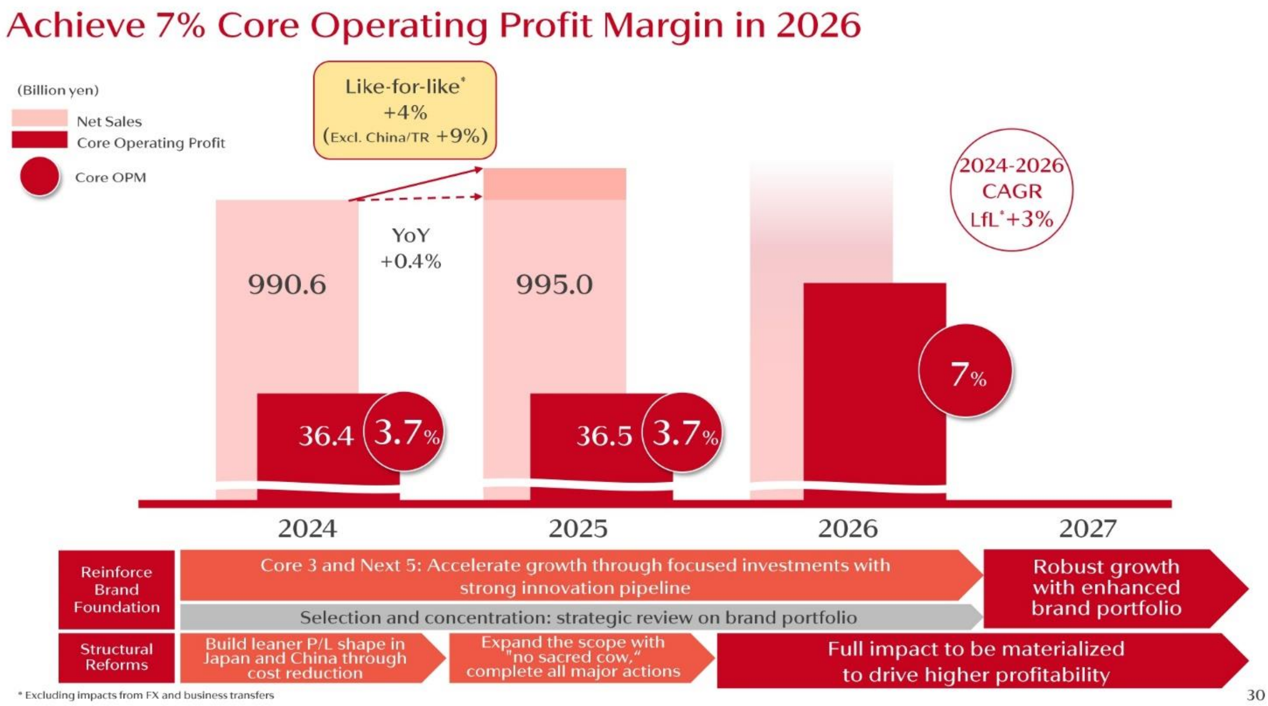


Next, please have a look at page 29. We have been working on evolving governance as a foundation to support the long-term enhancement of corporate value, starting with changes in organizational design. This year, we will continue to drive further evolution.

Mr. Hatanaka, who has experience and a proven record of accomplishment as a top executive of a publicly listed global company, has been appointed Chairman of the Board of Directors. We will further strengthen the separation of execution and oversight, aiming to enhance the effectiveness of the Board of Directors.

Also, we will formally propose at the next month's general meeting for the appointment of Mr. Nakajima as a candidate for a new external director. As a certified public accountant with high expertise in the financial field, Mr. Nakajima's addition is expected to strengthen our oversight and advisory functions in the formulation and execution of our financial targets.

In addition, we will also make changes to the executive compensation. By aligning execution compensation more closely with shareholder interest, we will promote the steady execution of our action plans and management to focus on shareholder value. As an entire executive team, we are committed to delivering results that meet the expectations of our shareholders and other key stakeholders.



Finally, page 30. At the briefing at the end of November, I declared that over the next two years, we will build an organization that steadily generates profits and drives growth despite the uncertain business environment and that we will achieve a 7% core operating profit margin by 2026.

As I explained earlier, this year's growth plan focuses on our key brands, allowing us to concentrate investment in the areas of growth. Additionally, the preparation for the launch of new products featuring our innovating technologies, which are one of our strengths is complete, and we are confident in strengthening our brands.

Over the two years of structural reforms, we will continue to invest in the Core 3 and Next 5 brands, strengthening the foundation for growth and ensuring growth is achieved. At the same time, by reviewing our brand portfolio, we aim to shift towards significant growth starting in 2027 with the goal of achieving even stronger growth.

Regarding structural reforms, looking at the results, we have made significant progress by fully implementing the structural reforms in Japan and China, which has definitely improved the structure for generating profits in each region. In 2025, we will expand our focus globally and make tough decisions necessary to enhance our medium- and long-term corporate value.

We promised to fully implement a structure that ensures growth leads to profitability. In this uncertain environment, we will prioritize swift action, advancing with an act and deliver approach. With the company acting as one, we will take on challenges and build a new growth framework for Shiseido. That is it with my presentation.

Question & Answer

Kuwahara [Q]: I would like to know what actions are exactly incorporated in your plan, and how much you are prepared to do that. I would like to know if it all comes down to the fact that something is reflected in the non-recurring items of 23 billion yen in connection with the initiatives on page 28 or not. Are there any items that we should particularly be paying attention to? Are you reflecting factors such as optimization of factory production lines and disposal of real estate properties in that 23 billion yen? Also, does that involve any cash?

And looking ahead, if you were to complete everything by 2025, wouldn't it be the case that there will be no substantial decline in profits after core operating profit from 2026 and onwards? This is because in my calculation, SG&A and COGS ratio will stay at 71% even in 2026. And this looks significantly higher than your global peers. I would like you to explain if there is any possibility that a recognition of non-recurring items will be paring gains from lower SG&A ratio driven by sales growth as a result of accelerating the investment behind brands after 2027.

Hirofuji [A]: Thank you for your question. As for the details about the nonrecurring items, expenses incurred by structural reforms are reflected. Also, the impacts of brand exit as a result of selection and concentration of brand SKUs have also been factored into the assumption, along with those related to real estate properties. In addition, as we will be relying on external sources to complete part of the structural reforms, we have also reflected the costs incurred by that as well.

While we still do not expect that nonrecurring items to be reduced to zero in 2026, we plan to reduce that amount significantly from 28.8 billion yen in 2024 and 23 billion yen in 2025. In terms of cash involvement, we expect it to be a little less than JPY20 billion, out of 23 billion yen booked as non-recurring items. And, with respect to SG&A ratio which you have pointed out, we are strongly committed to bring that down this year.

Fujiwara [A]: Also, by achieving core OP margin of 7% in 2026, we can increase the chance of driving profitability through growth. And from there, that point, we would like to drive more growth and so that in future, the growth will also expand on the profitability. Given the fact that we are running a high-margin business, so we would like to shift our focus on growth furthermore from now on.

Kuwahara [Q]: Just to confirm, going forward, is it correct for us to understand that this 23 billion yen will be reduced by, for example, disposal of real estate properties going forward? Or, just having that as a baseline, even in such cases, would you still consider doing more by looking into the factory assets and so forth?

Hirofuji [A]: Yes, we have that as a baseline, we are strongly committed to completing the structural reforms, by being bold and agile.

Kuwahara [Q]: Okay. So you have demonstrated your strong commitment to improve financial position and profitability, understood. Thank you very much.

Sato [Q]: I would like to confirm the bottom line. In the Americas, Drunk Elephant was surprisingly bad. We have no idea whether it is just because of the delay in the recovery or more to do with fundamentals of the business. I believe you paid quite a bit for acquiring the goodwill and trademark right of Drunk Elephant, which I think is more than JPY90 billion yen. But the reason that it was not recognized in the impairment test this time was due to an extraordinary factor associated with the disruption in production. Assuming that this will be normalized this year or next year, what level would trigger an impairment test? Even if there is no cash involved, still it might be better to take such a risk into account. Also, in terms of ROIC, are you looking at the bottom line? Please give us some update on the situation in the Americas.

Hirofuji [A]: Okay. I will explain about the impairment and the situation in the Americas. As for the reporting units of impairment assessment, we have changed Cash Generating Unit (CGU) to be tested by region. That said, we feel a sense of urgency to turnaround Drunk Elephant regardless of whether there is any risk of impairment to be recognized or not. That's definitely something that we need to focus on, and that is a very important part of the challenges that we are facing right now, since we need to further accelerate growth in the Americas, as well as in the EMEA.

Fujiwara [A]: As for the business in the Americas, on page 23 we have the growth strategy for the Americas business. We believe the market is continuing to diversify at an accelerated pace. That is how we see the market. The consumers are also diversifying, but not only that, there's a lot of emerging brands, and that's stimulating further diversification, leading to fierce competition.

Against such a backdrop, Drunk Elephant suffered from a production decline last year. While we expected a strong recovery to be achieved in the latter half of the year, it turned out to be more difficult than we had anticipated to realize that. And so the challenge for us here is a fierce competition in the market as well as the fact that we have not seen enough of the impact from our marketing investment. As you know, we had a lot of challenges last year which means that things should turn around for the better, but we are not that optimistic about the situation. As you can see on this slide, for Drunk Elephant, we want to build the brand engagement and the brand philosophy, and to clarify what does it deliver to consumers. That is something that we need to clearly communicate to consumers once again. Otherwise, the recovery will not be easy. So we see that as a challenge. And with that in mind, we would like to solidify its brand equity over time, building on its hero products and innovation at entry price points, putting a lot of efforts for a brand turnaround.

On the other hand, by making a visit to the U.S., I have been convinced that brand SHISEIDO has a lot of opportunities for growth in the region. Department stores used to be the key channel for the brand, but finally, we are well prepared to enter major channels like Sephora and Ulta. Instead of simply offering the brand as a whole, we will focus our strategy on products with innovative technology and competitive advantage. For example, innovation in the sun care category while preparing for open-sell retail partnership for Benefiance. We have strong confidence that we are well positioned to capture growth in the Americas from both in terms of channel as well as product strategies.

Also, Dr. Dennis Gross Skincare is gaining quite a bit of share in the key channels. And looking at the current trends in the market, products that are specialized in high-performance function that equates to medical beauty care are rapidly growing, and Dr. Dennis Gross Skincare is really at the core of such a trend. In the past, the product lines used to be focused on peeling or beauty devices, but finally, we're seeing more of a shift into the serious skincare, which can be now added to their portfolio.

So yes, in the context of the ever changing marketplace, our success depends on how fast we can shift our investment to adopt to changes to drive strong growth. So, we believe that this kind of portfolio management is really the key to strong growth in the Americas overall, and we are strongly committed to ensure that in the region.

Miyasako [Q]: I would like to ask a question about Japan. I believe that there has been a quite a bit of improvement in profitability to exceed the target by 8 billion yen in operating profit, despite sales falling slightly short of expectations. With respect to the cost structure reforms in 2024, you have achieved a benefit of 20 billion yen, with extra 5 billion yen added to the original target of 15 billion yen. It is not quite clear to me why you have been able to achieve that much of an improvement in profitability, so I would like you to explain about that and also, is there any upside to the target of 50 billion yen this year?

Fujiwara [A]: Thank you for your question. First of all, looking at the topline, while we achieved our internal targets in Japan local, inbound sales fell short of our initial assumption as it did not recover as much as we anticipated. So, that was the factor for missing our guidance for the topline. However, our internal business management has been evolving in a way that when we are unable to expect any growth, we are accustomed to do a gap closing on a monthly basis in order to ensure profitability. When we looked at the second half of the year, we knew that inbound sales would fall short of our expectations. So we were able to operate within an organizational framework that allows us to generate profits even though the topline may not reach our assumption or target. And last year, we were able to deliver 28 billion yen in profit, and the biggest factor was that we had our focus on core brands along with hero SKUs, leading to generate significant gross profit gains from higher sales.

Aside from that, cost reduction progressed as expected. Just in Q4, we had an impact of the early retirement plan as well as reductions in other areas including IT investment, sales promotion goods, returns, and others, reflected in the profit of 28 billion yen.

And as for the next year, one thing that is clearly visible at this point is that we have benefits from early retirement of 1,500 people over the course of the year, which is going to have a substantial impact. Also, for inbound sales, we will make a growth plan according to the current conditions so that growth in topline gains will generate more profit. Additionally, reduction in sales promotional goods is expected to have a significant impact coupled with reduction in returns which has already been reflected this year. All of these will be combined to have positive impacts on our profitability and we believe that the probability is quite high that we will be able to achieve core OP of 50 billion yen.

And, as you mentioned about the upside, we will keep our eyes on the topline situation. If the topline seems to be tough to be achieved, we would then execute actions that can bring some kind of reform on a monthly basis, so as to ensure that we achieve the JPY50 billion target. While we are unable to share any number with you at this point, we have been transforming into an organization that is capable of generating 50 billion yen by executing such actions.

Hirofuji [A]: Let me just add one point. I think it's a great result that we delivered 28 billion yen this time, but there has been an impact of bonus adjustment based on the business performance of the Company which amounted to about 5 billion yen. So, without that one-off cost reduction impact, it would have been 23 billion yen. So that is one thing I would like to add.

Having said that, by making further strides in selection and concentration with focus given on the core brands, we have been able to increase gross profit margin by 1 percentage point in Japan. So, certainly, we are delivering tangible results from structural reforms, making a shift to more profit-driven business model. We are on a growth track.

Oliver [Q]: Could you tell us more about price increases in Japan and e-commerce plan for this year?

Fujiwara [A]*: In case of the price increase, we also have a plan for this year the same as the last year. We already announced the price increase for the market which will be effective in April mainly for the brand SHISEDO and Cle de Peau Beaute. And second is e-commerce. We have achieved about 20% growth last year. And the e-commerce ratio in 2024 has increased to 15.5%, 2% higher than the previous year and we will continue to increase the ratio going forward. We are examining which brands have more opportunities for growth in e-commerce, but there are some brands for which the situation is challenging.

According to our research, like brand SHISEIDO can achieve around 30% or even more than 30%. But in case of ELIXIR, which is a brand more focused on drugstores, it is quite difficult to increase e-commerce sales and achieve 30%. We also need to think about how we should be strengthening OMO, instead of just focusing on e-commerce ratio, and that has grown into a critical part of our strategies for Japan.

Hirofuji [A]*: Just to add on with regards to the price increase impact for 2025, we are seeing globally assuming around JPY10 billion, out of which less than half of it would be coming from Japan. We have built confidence from last year's price increase achievements which will also be contributing to profit increases in Japan as well.

Kawamoto [Q]: I have a question about 5% revenue growth achieved in China in Q4 which you explained with your performance during Double 11. On the other hand, you are still expecting YoY revenue decline in 2025. On page 25 you have a strategy for SHISEIDO to build a product portfolio aligned with polarized consumption, but I wondered why you are specifically targeting SHISEIDO to start with. The China's mass market is earning attention globally, and other brands like AUPRES, d program and ELIXIR how are you going to target the mass market going forward? That is my question.

Fujiwara [A]: Regarding AUPRES, we are in the situation that the price is still relatively high compared to the mass market. Currently, we don't have brand that can be offered at competitive pricing to compete with China's local brands. So, we believe the right strategy for us is to solidify our presence in prestige and premium categories where we have competitive advantage in the market.

And with that backdrop, if we breakdown the skincare and look into the subcategories, we still see some trends of trade down in lotions and emulsions whereas trading up seen in cream, essence, and eye care with growth in prestige brands. So, for China, we believe that we need to adopt strategies for product allocation according to detailed layers of category segmentation.

Kawamoto [Q]: Now, revenue has returned to growth in Q4. Is there any factors that you are not quite confident in terms of sustainability? Or does your forecast reflect your conservative outlook for China overall? I am asking this question since the results for the three months period between October and December were quite solid relative to global peers.

Fujiwara [A]: As far as Q4 is concerned, one thing we need to consider is that there was an impact of the treated water in the prior year, so the hurdle was lower. That is one thing we have to bear in mind. On the other hand, when we look at the overall market, in Q4, our Group demonstrated top performance in the industry in terms of growth. So we are confident that things are turning for the better in the market, and we feel that our business is improving. But as far as this year is concerned, for H1, there is an impact of the hurdle from the previous year and for Q1 and Q2, we are looking at Chinese market rather conservatively.

Kawamoto [M]: Thank you.

Hirozumi [Q]: What kind of things do you have in mind in terms of actions taken for the structural reforms in the Americas and heavy fixed cost structure? I personally don't think that the Trump administration will have much impact, but for NARS do you continue to have your production base in the U.S? I am a bit concerned about the Americas. So how do you plan to turn things around in the region? I would appreciate if you could deep-dive a bit further on NARS and fixed cost structure.

Fujiwara [A]: Thank you. About the growth in Americas, we will strengthen management of our brand portfolio to ensure growth. As for NARS, we posted a decline in production last year, but that is unlikely to happen this year. Moreover, we are seeing a solid recovery in NARS since Q4 last year. As we have shown on the slide, we are confident that we can drive growth with sustainable profitability.

Regarding the structural reforms in the Americas, we will continue reforms to achieve substantial reduction in fixed costs in line with other regions. So, the key element of our strategy is to rebuild a profitable business structure by steadily reducing SG&A and personnel expenses while delivering growth in the region.

Hirofuji [A]: And as for the tariff, yes, it is expected to have some impacts on procurement of raw materials and import of finished products, but we believe that the impact will be limited. As for the tariffs, we have been shifting from multi-sourcing to local sourcing inside the U.S., so I think we can minimize the impact of the tariffs. Still, we will be monitoring the situation closely going forward.

Hirozumi [M]: So your forecast for the Americas in fiscal 2025, I think you expect low teens % growth. Do you think this is quite achievable?

Hirofuji [A]: Our forecast of revenue growth in the Americas reflects an extraordinary situation last year. So first of all, for Drunk Elephant for the H1, we were in out-of-stock situation. And at the same time, NARS too had been hit by the decrease in production. So the hurdle for this year is lower. But as mentioned earlier, as for Drunk Elephant, just because the production is back, sales are unlikely to recover immediately. We need to rebuild the brand itself. So, in H1 of this year, we will solidify the brand Drunk Elephant, and we will build our efforts around that.

Hirozumi [M]: Thank you very much.

Miyazaki [Q]: My question is about China and Travel Retail . Last year, the price continued to decline towards the lowest range and you were trying to address that issue. And this year, as assumptions for topline and profit in China and Travel Retail, is there any remaining issues that must be addressed in terms of the pricing? Are you consciously reducing the expected volume in your assumption? I think you explained that you have been optimizing inventory, but is there any remaining parts reflected in 2025 plan?

And you also explained about brands. So between online and offline, which is going to more of a focus in terms of marketing cost or investment? I would appreciate it if you could explain a little more about China and Travel Retail, including the channel strategy.

Fujiwara [A]: Thank you for your question. First of all, for pricing, we execute disciplined management on promotion. On the other hand, we still had Daigou issue during the last year. And so, for the Travel Retail , we would like to steadily capture sales form Chinese tourists. In other words, we will take actions to control this year and next year as well. In that sense, we are formulating our strategic plans with discipline so that we can achieve healthy growth from 2026 onwards.

Next is the market condition. The market itself is in a downturn quite a bit overall, with growth of minus low single digit% in China and minus low teen% in Travel Retail. We would not say that the overall prestige market is shrinking, but we assume that it has become slightly smaller in Q4. But against such a backdrop, there are still some opportunities for growth and we will try to steadily capture, but we are not optimistic about the underlying market conditions.

Lastly, about online and offline channels. To be honest, in offline, we expect that there still be some adjustments underway. When we think about the number of department stores and shopping malls, the number is still high. We will closely look into profitability and potential for growth by each channel, and will continue optimization of offline stores which we have been continuing since the latter half of 2023.

As we have presented in the business strategy for China and Travel Retail, we will elevate organizational capabilities through social network while localizing communication. In fact, this is what we mean by shifts in channels. So we are not simply thinking about e-commerce, but we will shift our focus on social commerce so that we will create the content that is suitable to the market to reach to the targeted consumers. And the importance of such capability is increasing. So we will strengthen that through investment in order to lay a solid foundation for growth in the future.

Miyazaki [M]: Thank you very much.

Hyogo [Q]: I have one question regarding executive renumeration on page 29. I appears that much of the weight has been made on relative TSR and I would like to know the reason for that. Also, with respect to ROIC, I believe that you had an investment inefficiency issue in the past, which I think is reflected here. However, considering that metrics related to sales will be completely taken out, I would wonder how you position sales in the evaluation. Given that relative TSR is measured by share price, that part is uncontrollable. If you could explain the reason you have put so much weight (50%) on that part, that would be very helpful.

Fujiwara [A]: As for the remuneration of the directors and corporate executive officers, this is about the LTI (the long-term incentive type remuneration). As for that, we have adopted new economic value metrics of the relative TSR and the ROIC. On the other hand, for annual incentive, we have sales and profit being fully reflected as economic value metrics. And in a sense that we want to avoid an overlap, we have established KPIs for LTI that are more focused on shareholder value.

And for relative TSR, as you can see the weight is 50%. Indeed, we do have an idea that it would be more desirable to increase the weight of ROIC which reflect specific actions taken in business execution compared to TSR. However, just looking at the next two years, the ROIC target, unfortunately, will be lower than the WACC. The performance of the Company's share price has been weak and considering that it makes more sense to put more weight on evaluation metrics for business execution aiming to enhance probability for a turnaround and to drive share price increases, we have adopted such approach. But as you have pointed out, in terms of the balance, we may consider some kind of revision in the future.

Hyogo [M]: Okay. Understood. Thank you. Well, I hope everyone gets paid out 100%. Thank you.

[END]

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