



Shiseido Company, Limited
2025 First Half Results (January-June)

August 6, 2025

Event Summary

[Company Name]	Shiseido Company, Limited	
[Company ID]	4911-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	2025 First Half Results (January-June)	
[Fiscal Period]	FY2025 Q2	
[Date]	August 6, 2025	
[Time]	16:45 – 17:46 (Total: 61 minutes, Presentation: 26 minutes, Q&A: 35 minutes)	
[Venue]	Webcast	
[Number of Speakers]	3	
	Kentaro Fujiwara	Director, Representative Corporate Executive Officer, President and CEO
	Ayako Hirofuji	Representative Corporate Executive Officer, Chief Financial Officer, Chief DE&I Officer
	Yuki Oshima	Vice President, Investor Relations Department

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Presentation

Key Highlights of 1H 2025 Results and Full-Year Outlook

- **Steady execution of Action Plan 2025-2026;**
accelerated fixed cost reductions to achieve sustainable profitable growth amid market volatility
 - Japan: significant boost to profitability thanks to structural reform benefits
 - China & Travel Retail: bottomed out, resilient margins amid declining sales
 - Americas: **accelerated transformation** under the new leadership, yielding additional structural reform benefits of ¥5.0 bn
- **Elevated financial discipline**
 - Core OP: ¥23.4 bn (YoY: +¥4.1 bn): exceeded 1H profit target via global-wide cost management
 - Optimized CAPEX, accelerated asset-light strategies aiming to maximize ROIC
- **Full-year forecasts unchanged**
 - Expect downside risks to achieving sales target amid of challenging market conditions
 - Unwavering commitment to delivering core OP target of ¥36.5 bn via accelerated transformation and global-wide cost management

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Hirofuji: Thank you very much. I will now explain our 2025 half year results. Please take a look at page 3, the 1H results, and full-year outlook. Our current top priority is to steadily implement our action plan and build a business structure that generates stable profit. There are three key highlights I would like to explain. First is the result of our structural reform continued from Q1 in Japan, in China & Travel Retail, the fixed cost reduction effort we have been working on since last year is clearly reflected in the 1H figure, improving profitability and maintaining profit margins despite the declining net sales. As there was a few media coverage in Americas, under the new leadership structure, we accelerated personnel and organizational rationalization in July. As a result, we will accumulate the benefits of our annual structural reform across the Company.

The second is the strengthening financial discipline. Given the challenging market environment, we conducted further cost review across the Company. Despite the decline in net sales, our company core operating profit for 1H exceeded our plan. In addition to our cost reductions in P&L, we also focus on the cash and balance sheet, reviewed capital investment and steadily implemented our asset-light strategy, including relocating and reducing offices to improve ROIC.

Third, regarding our full-year outlook. While we anticipate certain risks to net sales, our commitment to achieving core operating profit of JPY36.5 billion remains unchanged, and we will achieve this through accelerating structural reforms and cost management. Since our disclosure in May, we have received many questions from investors regarding impairment risks. Given the declining profitability of our Americas business, we determined there are the indications of impairment and conduct the impairment test. As a result, we did not record any impairment loss for this quarter. However, given the underperformance of Drunk Elephant to date and uncertainty, including interest rate outlook, we recognize that the risk of impairment losses on our Americas business is greater than ever.

For details, please refer to page 17 of Consolidated Settlement of Accounts.

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1H 2025 Executive Summary

(Billion yen)	1H 2024	% of Net Sales	1H 2025	% of Net Sales	YoY Change	YoY Change %	YoY FX-Neutral %	YoY LfL % ^{*1}
Net Sales	508.5	100%	469.8	100%	-38.7	-8%	-6%	-6%
Core Operating Profit	19.3	3.8%	23.4	5.0%	+4.1	+21%		
Non-recurring Items	-22.0	-4.3%	-5.3	-1.1%	+16.7	-		
Operating Profit	-2.7	-0.5%	18.1	3.8%	+20.8	-		
Profit before Tax	4.2	0.8%	19.2	4.1%	+15.0	+356%		
Income Tax Expense	4.0	0.8%	10.1	2.2%	+6.1	+153%		
Profit Attributable to Owners of Parent	0.0	0.0%	9.5	2.0%	+9.5	-		
EBITDA ^{*2}	45.5	8.9%	48.5	10.3%	+3.1	+7%		
Free Cash Flow	-27.5	-5.4%	17.5	3.7%	+44.9	-		

Net Sales: YoY LfL%^{*1} -6% Declined YoY weighed down by the weakness in China & Travel Retail and *Drunk Elephant*

Core OP : YoY change +¥4.1 bn Increased via acceleration of effective global-wide cost management, structural reform benefits

Non-recurring Items : 1H 2025 -¥5.3 bn Recognized -¥3.0 bn for structural reform expenses associated with workforce reduction in Americas; Full-year target of -¥23.0 bn more heavily weighted in 2H 2025

Free Cash Flow : 1H 2025 ¥17.5 bn Turned positive driven by higher profit before tax; acquisition-related costs reflected in 1H 2024

^{*1} Like-for-like increase (decrease) in net sales excludes the impacts of foreign exchange translation and all business transfers in 2025 and 2024 as well as the services provided during the transition period, and the impact of sales prior to the acquisition of *Dr. Dennis Gross Skincare* in 2024 and its corresponding period in 2025 ("business transfers and acquisitions")

^{*2} Core Operating Profit + Depreciation and Amortization (excl. depreciation of right-of-use assets)

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Now, page 4, Executive Summary.

Net sales for 1H were JPY469.8 billion, with LFL growth rate of minus 6%, primarily due to a weakness in the China & Travel Retail and Drunk Elephant. Compared to the plan, the result was slightly below our initial forecast of a low single-digit decline due to poor performance of Drunk Elephant and others.

Core operating profit was JPY23.4 billion, an increase of JPY4.1 billion YoY, exceeding our expectations. We are pleased to report that we have already achieved over 60% of our full-year guidance of JPY36.5 billion. We view this as evidence that our structural reforms and strengthening the financial disciplines are beginning to bear fruit, but we are by no means optimistic as the upside in 1H includes expenses carried over to 2H and uncertainty and risk factor remains.

Non-recurring items totaled JPY5.3 billion of the JPY23 billion in full-year 2025 plan, we recorded JPY3 billion in expenses related to structural reforms in Americas in Q2. As a result, interim profit was JPY9.5 billion. While this has already exceeded our JPY6 billion net profit forecast for 2025 announced in February, we have not revised our earnings forecast as the majority of nonrecurring items are expected to occur in 2H.

Free cash flow was JPY17.5 billion, turning positive from a negative figure in Q1 due to factors such as higher profit before tax and others.

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Core Operating Profit : Fixed Costs Steadily Reduced Thanks to Structural Reforms

(Excluding Non-recurring Items)

(Billion yen)	1H 2024	% of Net Sales	1H 2025	% of Net Sales	YoY Change	YoY %	Pts Difference
Net Sales	508.5	100%	469.8	100%	- 38.7	- 7.6%	-
COGS	122.9	24.2%	106.1	22.6%	- 16.8	- 13.7%	- 1.6pts
Gross Profit	385.6	75.8%	363.7	77.4%	- 21.9	- 5.7%	+ 1.6pts
SG & A	367.4	72.2%	342.9	73.0%	- 24.5	- 6.7%	+ 0.7pts
Marketing investments	138.1	27.1%	135.3	28.8%	- 2.7	- 2.0%	+ 1.7pts
Brand development / R&D	18.5	3.6%	17.7	3.8%	- 0.8	- 4.6%	+ 0.1pts
Personnel expenses [*]	123.1	24.2%	108.1	23.0%	- 15.0	- 12.2%	- 1.2pts
Other SG&A	87.7	17.2%	81.8	17.4%	- 5.9	- 6.7%	+ 0.2pts
Other Operating Income / Expenses	1.0	0.2%	2.6	0.6%	+ 1.6	+ 152.5%	+ 0.3pts
Core Operating Profit	19.3	3.8%	23.4	5.0%	+ 4.1	+ 21.3%	+ 1.2pts

COGS : Improved COGS ratio via better mix of brands and SKUs, etc.

Marketing investments : Increased with new product launches in EMEA/Americas

Personnel expenses^{*} : Reduced by reform benefits in Japan/China & TR; Americas fixed cost reductions positive impacts will surface from Q3

Other SG&A : Lowered thanks to structural reform benefits and agile cost management, etc.

^{*} Including POS personnel expenses

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Next, page 5, core operating profit.

First, the cost of goods sold ratio improved 1.6 percentage points from last year to 22.6%, driven by better mix of brands and SKUs. Marketing investment decreased JPY2.7 billion from last year. Meanwhile, its share of net sales increased 1.7 points to 28.8%. This was primarily due to increased marketing investments associated with new product launches in EMEA.

Personnel expenses decreased JPY15 billion from last year, improving its share of net sales by 1.2 points. This primarily reflects the results of restructuring efforts in Japan, China & Travel Retail. The effects of personnel reductions in the Americas are expected to be realized from Q3 onwards.

Other SG&A decreased by JPY5.9 billion, driven by a decrease in depreciation expenses and rigorous cost management, and others.

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Net Sales by Reportable Segment : Sequential Recovery Across All Regions

Like-for-like*1	2024 (vs. 2023)					2025 (vs. 2024)		
	Q1	Q2	Q3	Q4	FY	Q1	Q2	1H
Japan	+20%	+7%	+5%	+7%	+10%	-2%	+2%	-0%
China & Travel Retail*2	-14%	-11%	-23%	+2%	-11%	-14%	-7%	-10%
Asia Pacific	+5%	+7%	+2%	-3%	+2%	-1%	-0%	-0%
Americas	+9%	-20%	-9%	-7%	-7%	-19%	+4%	-9%
EMEA	+17%	+6%	-7%	+16%	+8%	-9%	+2%	-4%
Total	+3%	-4%	-8%	+4%	-1%	-9%	-3%	-6%

*1 Excluding the impacts of foreign exchange translation, business transfers and acquisitions

*2 To adopt an integrated approach to Chinese consumers and to maximize value creation, the Company implemented changes to its organizational structure as of March 31, 2025, along with change to its reportable segment which have been reflected in 2025

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Next, page 6 shows net sales by region.

The sales decline steadily narrowed from minus 9% in Q1 to minus 3%. While this did not meet our main focus of flat sales growth in Q2, all regions are on recovery trend. We are expanding our market share in areas such as fragrances in Japan, Asia Pacific, and Europe.

Net Sales by Brand: Momentum Recovery Across Key Brands Clé de Peau Beauté, NARS and ELIXIR Delivering Solid Performance



* YoY change (%) for each brand is calculated based on foreign exchange rate assumptions as at the beginning of 2025 which excludes the impacts of foreign exchange translation, etc. * % of net sales is cumulative basis for 1H 2025

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Next, page 7 shows the sales trend by brand.

YoY performances vary from brand to brand. We will carefully evaluate each brand from a strategic perspective to strengthen and expand our core brands and challenges will be properly identified and addressed. A positive sign across all brands is that the growth accelerated or revenue declines narrowed from Q1 to Q2, indicating a steady improvement. Clé de Peau Beauté, NARS, and ELIXIR are performing well and driving growth across the Company. Fragrance is capitalizing on market strength, improving in Q2 and accelerating growth in 2H. ANESSA revenues declined primarily due to Travel Retail and inbound tourism to Japan, but this was in line with our strategy and generally anticipated in the plan. Drunk Elephant and brand SHISEIDO in China & Travel Retail are seeing a narrowing of their declines, but still in the process of recovering. Therefore, we will closely monitor their future improvements.

Japan: Upward Momentum Continued in Local Market, but Inbound Lost Stream; Profitability Improved Markedly Thanks to Structural Reform Benefits

(Billion yen)	1H 2024	1H 2025	YoY Change	YoY %
Net Sales	146.8	145.9	-0.9	-0.4% ^{*1}
Core OP	6.3	19.5	+13.2	+207.5%
Core OPM	4.3%	13.3%	-	+9.0pts

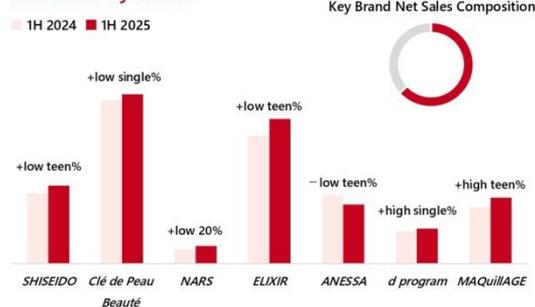
Q2 Market

- Local: modest growth continued
- Inbound: moderate growth on the back of rising number of foreign visitors to Japan, but saw sharp deceleration from May onwards driven by weakness in department store channels

Q2 Consumer Purchases

- + Low single%; local core brands^{*2} drove growth, share expansion to continue
 - Local: +low single% EC: +high teen%
SHISEIDO's new ULTIMUNE drove momentum
 - Inbound: - low single%
- Increased price convergence in domestic and overseas markets due primarily to yen appreciation, extended period of China's 618 e-commerce promotion and lower pricing

Net Sales by Brand



^{*1} Excluding the impact of business transfers ^{*2} SHISEIDO, Clé de Peau Beauté, NARS, ELIXIR, ANESSA, d program, MAQuillage

1H Net Sales & Core Operating Profit

- Achieved YoY profit growth thanks to structural reforms and productivity enhancement

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Now, page 8 talks about net sales by region.

The figures on the upper left table and the text for 1H net sales and core operating profit show six-month basis, while Q2 market and Q2 customer purchases show the most recent three-month figures to indicate changes in momentum. Japan achieved a significant increase in profit despite the decrease in revenue, demonstrating continued progress in structural profitability improvements. On the other hand, what stands out as the trend is a slowdown in the inbound demand.

Local market in Q2 continued modest growth. Consumer purchases grew low single-digit percent. Core brands drove growth, and share expansion is continuing. SHISEIDO's new ULTIMUNE is continuing to drive momentum. E-commerce sales are maintaining growth at high-teen percent with loyal user purchases driving growth on our online website. On the other hand, the inbound market growing with an increase in number of visitors to Japan began to slow down in May, particularly in the department store channel, and inbound consumer purchases turned negative in Q2. We analyzed that incentives to purchase in Japan declined because of factors such as the narrowing price gap between Japan and overseas markets caused by the strong yen, extension of the 618 shopping season, and intensified low-price competition in China.

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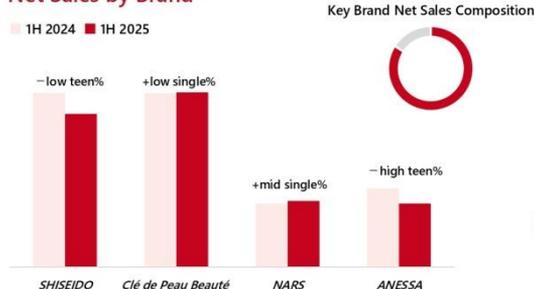
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Despite the sales decline, core operating profit increased JPY13.2 billion, thanks to structural reforms, such as reduction in personnel expenses due to early retirement and improved efficiency of marketing investments. 1H margin was 13.3% and Q1 was higher at 15% due to rush demand before the price hike. We believe low teen percent level is our normalized level, averaging out such one-off factors.

China & Travel Retail: Slightly Ahead of Sales Target albeit YoY Decline; China Returned to Growth; Stable Profitability Maintained Thanks to Cost Discipline

(Billion yen)	1H 2024	1H 2025	YoY Change	YoY %
Net Sales	198.5	173.9	-24.6	-10.0% ^{*1}
Core OP	46.0	38.8	-7.2	-15.6%
Core OPM	23.0%	22.1%	-	-0.9pts

Net Sales by Brand^{*1}



^{*1} Excluding the impacts of foreign exchange translation and business transfers ^{*2} Excluding the impact of extended sales period

Q2 Market

China: prestige accelerated after Q1, but offline retail channels faced ongoing challenges; 618 e-commerce sales marginally increased^{*2} amid fierce price competition

- Travel Retail:
 - Chinese tourist consumption remained stagnant
 - South Korea saw ongoing shift to a tourist-driven model
 - Japan decelerated

Q2 Consumer Purchases

- China: +low single%
 - Offline: - low teen%, EC: +low teen%
 - 618 e-commerce promotion: outperformed the market driven by high-prestige brands
 - *Clé de Peau Beauté* and *NARS* maintained strong momentum overall, including offline channels, *SHISEIDO* performed well in EC but continued to suffer YoY decline in offline channels

- Travel Retail: - low 20%

1H Net Sales & Core Operating Profit

- Mitigated negative impact on profitability via fixed cost reduction and cost management amid sales decline and worsening business mix due to sequential contraction in Travel Retail

Slide 9 is China & Travel Retail.

It was slightly ahead of sales target. If we focus on Q2 only, growth turned positive YoY in China. China's prestige market growth rate accelerated from Q1 to Q2, and market share expanded in Q2. In addition, 618 e-commerce sales saw fierce price competition among platformers, and price-driven purchasing behavior remained strong. But even excluding the impact of the extended sales period, sales increased marginally YoY; we outperformed the market, driven by high prestige brands.

Offline market faced ongoing challenges. Clé de Peau Beauté and NARS maintained strong momentum overall, including offline channels. With online consumption becoming the norm, Clé de Peau Beauté is promoting customer visits by creating reasons to visit, such as opening a new spa on the upper floors of major department stores and providing the best customer experience possible. We believe that investing in experiences to build equity as a luxury brand is helping us stand out from the competition. Although SHISEIDO grew markedly in 618, it continued to suffer in offline channels. Travel Retail continued to face challenges in the Asian market, and the Japanese market also slowed down, and consumer purchases fell to the negative low 20% level.

Despite sales decline and worsening business mix, we maintained high profitability with core operating profit of JPY38.8 billion, profit margin of 22.1% via structural reform such as fixed cost reduction and cost management.

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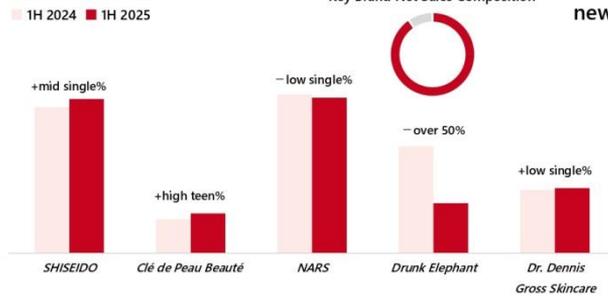
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Americas: Continue to Suffer Sales Decline with *Drunk Elephant*, Accelerate Structural Reform Actions

(Billion yen)	1H 2024	1H 2025	YoY Change	YoY %
Net Sales	57.3	51.5	- 5.8	- 9.0% ^{*1}
Core OP	- 2.5	- 5.8	- 3.3	-
Core OPM	- 4.2%	- 10.8%	-	- 6.6pts

Net Sales by Brand^{*1}



Q2 Market^{*2}

- Maintained YoY growth, but fell short of expectations

Q2 Consumer Purchases^{*3}

- - high single%
- *Drunk Elephant* continued to struggle

1H Net Sales & Core Operating Profit

- Profit dropped on YoY sales decline
- *SHISEIDO* benefitted from new product launches, with new *ULTIMUNE* and mineral sunscreens fueling its growth



*1 Excluding the impacts of foreign exchange translation, business transfers and acquisitions *2 Prestige market *3 Data coverage: U.S. and Canada

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Slide 10 is about Americas.

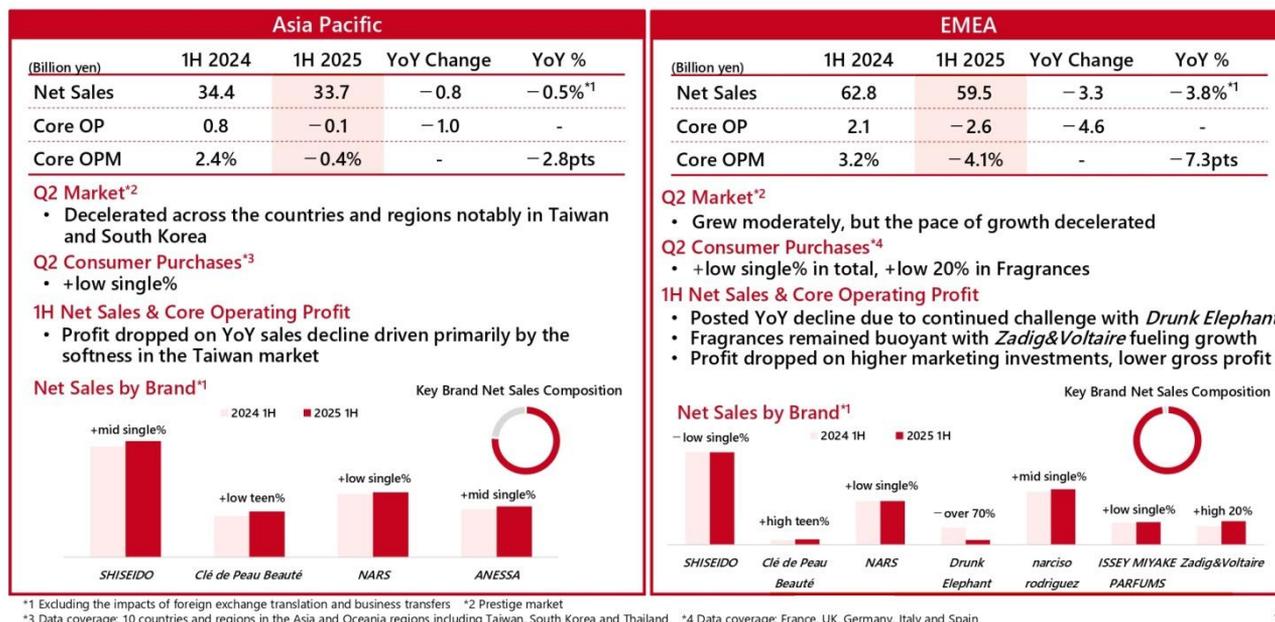
Americas market maintained YoY growth, but fell short of expectations in Q2. Consumer purchases were negative high single percent, and *Drunk Elephant* struggled with results far below our initial expectation. Core operating profit dropped JPY3.3 billion due to sales decline. *SHISEIDO* benefited from new product launches with new *ULTIMUNE* already launched in Japan and mineral sun care sunscreens, fueling growth. We are accelerating structural reforms actions for a swift turnaround of Americas. CEO, Fujiwara, will give further details about this, along with our recognition of challenges of *Drunk Elephant*.

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Asia Pacific: Market Contraction Continued, but Still Captured Share Gains EMEA: Ongoing Sales Decline with *Drunk Elephant*; Fragrances Remained Buoyant



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Slide 11 is on Asia Pacific and EMEA.

In Asia Pacific, market contraction is continuing, notably in Taiwan and South Korea, and sales declined, but overall market share expanded mainly in main markets. Core operating profit decreased by JPY1 billion due to sales decline and others.

Next is EMEA. Q2 market maintained moderate growth, but the pace of growth decelerated. Q2 consumer purchases turned positive after negative growth in Q1. Drunk Elephant continued to struggle, but fragrances remained buoyant with Zadig&Voltaire, fueling high growth at low 20%, outperforming the market by far, expanding its share. Core operating profit declined JPY4.6 billion on increased marketing investments and lower gross profit.

Both Asia Pacific and EMEA are expected to secure profits on a full-year basis. Acceleration of sales and profitability improvements are expected in 2H.

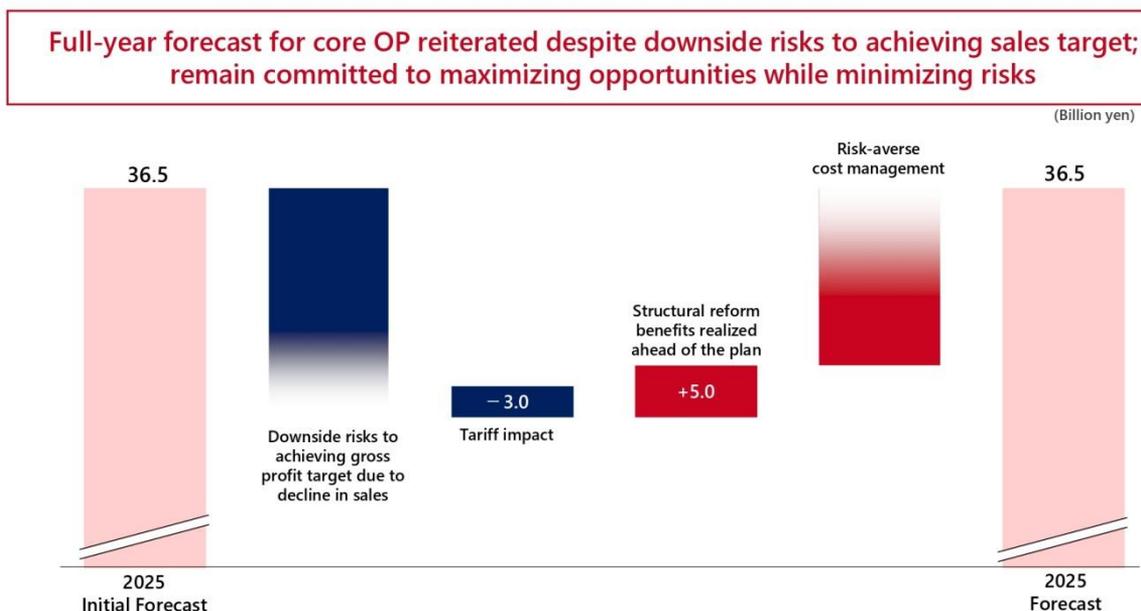
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2025 Core Operating Profit Forecast



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Slide 12 is on 2025 core operating profit forecast.

We are expecting some downside risks to achieving sales target, but we will continue with management efforts to achieve 2025 core operating profit forecast of JPY36.5 billion. From next slide onwards, I will explain the major assumptions and initiatives.

2025 Sales Forecasts: Downside Risks to Achieving Sales Target

	Initial Forecast YoY Net Sales (Lfl%*)	Risks & Opportunities
Japan	Total: +high single% Local: +high single% Inbound: +mid teen%	<ul style="list-style-type: none"> ● Inbound sales to fall significantly short of expectations due to downturn in tourist consumption
China & Travel Retail	- mid single%	<ul style="list-style-type: none"> ● Weak consumption, heightened uncertainty, fierce price competition in the market to continue, but likely to maintain a better foothold than expected overall
Asia Pacific	+low teen%	<ul style="list-style-type: none"> ● There might be a risk that growth to fall below our expectations weighed down by the weakness in certain markets² including Taiwan and South Korea ● <i>Drunk Elephant</i> to continue lackluster performance
Americas	+low teen%	<ul style="list-style-type: none"> ● Market expected to grow at slower pace particularly in skincare and makeup categories ● <i>Drunk Elephant</i> to continue lackluster performance
EMEA	+high single%	<ul style="list-style-type: none"> ● Market expected to slow across all categories ● <i>Drunk Elephant</i> to continue lackluster performance
Global	+4%	

*1 Excluding the impacts of foreign exchange translation, business transfers and acquisitions
*2 Countries and regions in Asia Pacific

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Slide 13 shows downside risks and opportunities.

In Japan, sluggish inbound sales in Asia Pacific, Americas and EMEA, market deceleration, and continuing lackluster performance of Drunk Elephant are considered major risk factors. On the other hand, China & Travel

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Retail is trending better than expected as of now, which we see as an opportunity, especially in China, although 2H of last year was a low hurdle, actual shipment on a preliminary basis in July performed well with double-digit growth. We will continue to maximize opportunities.

Tariff Impact: Estimated Net Impact on Earnings Reduced to ¥3.0 bn from ¥7.0 bn; Implementing Risk Mitigation Measures

<Assumptions>

- As of Q1 results announcement (estimated impact: ≤ -¥7.0 bn): U.S. tariffs on Chinese imports: +145%, China's retaliatory tariffs on U.S. imports: +125%, U.S. imports from countries and regions other than China: +10% with baseline tariff being applied during a 90-day suspension period from April 9, and thereafter reciprocal tariff rates announced on April 2, 2025 to be applied
- Revised assumption: (estimated impact: ≤ -¥3.0 bn) : U.S. tariffs on Chinese imports: +30%, China's retaliatory tariffs on U.S. imports: +10%; Reciprocal and retaliatory tariffs will be imposed according to the rates agreed and announced by the applicable countries and regions as of July 31, 2025

	U.S.	China & Travel Retail	Other Countries and Regions	Risks	Mitigation Actions
Direct Impact	1) Higher import costs from China, Mexico, Canada, etc., e.g. raw materials 4) Higher import costs for products from Japan and Europe e.g. SHISEIDO, Clé de Peau Beauté and Fragrances	2) Higher import costs for products manufactured in the U.S. e.g. NARS, etc. 5) Reduced import volume from the U.S. leading to a decline in sales	3) Higher import costs for products manufactured in the U.S. e.g. NARS and Drunk Elephant	Estimated impact in 2025 Core Operating Profit Annual ≤ -¥3.0 bn Q2 Minor	Advancing current actions <ul style="list-style-type: none"> • Change to local sourcing • Review of production sites • Global-wide cost management Additional Actions <ul style="list-style-type: none"> • Inventory build-up • Utilize tariff exemptions • Streamline logistics • Pricing • Sales expansion actions • Additional fixed costs reduction
Indirect Impact	Downturn in the global beauty market Inflation to reduce the purchasing power of consumers Deterioration in consumer sentiment, increase in household saving Negative wealth effect by falling asset prices e.g. stocks and real estate FX fluctuation			Sales/Profit Decline - α	

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Slide 14 on tariff impact.

As a result of reviewing assumptions reflecting changes in the situation, tariff impact for 2025 full-year is expected to shrink to around JPY3 billion as of now, compared to the JPY7 billion a year at maximum, which we announced the last time. We will aim to minimize the impact by executing mitigation actions as described.

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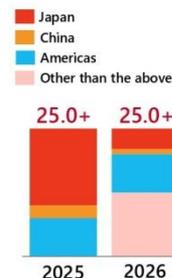
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Progress on Global Cost Structure Transformation

**1H: Realized ¥13.5bn cost reduction benefits, on track with the plan;
 Full-year: Accelerate structural reforms in Americas ahead of the schedule;
 raising cost reduction target: ¥20.0 bn → ¥25.0 bn
 Increase 2-year reduction targets from ¥45.0 bn → ¥50.0 bn to achieve core OPM target**

		(Billion yen)		
		1H Actual	2025	2026
COGS	<ul style="list-style-type: none"> • Selection and concentration of brands and SKUs, strategic price increases • Optimize factory production line efficiency, etc. 	1.5	3.0	7.0
Marketing investments	<ul style="list-style-type: none"> • Optimize promotional costs, increase marketing ROI • Expand local production and operational efficiency of samples 	1.5	2.0	1.0
Personnel expenses	<ul style="list-style-type: none"> • Optimize organization structure, improve productivity • Streamline corporate functions to enhance operational efficiency, etc. 	8.5	15.0	8.0
Other SG&A	<ul style="list-style-type: none"> • Reduce outsourcing cost • Reduce depreciation: system optimization and integration, selective new investments • Other cost savings: logistics optimization, efficient office management, etc. 	2.0	5.0	9.0
Total		13.5	25.0+	25.0+



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Slide 15 is on progress on global cost structure transformation.

In 1H of 2025, we realized JPY13.5 billion cost reduction benefits on track with the plan. On a full-year basis, we will accelerate structural reforms in Americas ahead of schedule, as a result, accelerating personnel expenses reduction and therefore, raised cost reduction target from JPY20 billion to JPY25 billion. Furthermore, we will increase two-year reduction targets for 2025 and 2026 from JPY45 billion to JPY50 billion to improve profitability.

This concludes my presentation.

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Driving the Value of Our Key Brands



17

Fujiwara: Then I would like to talk about the Action Plan 2025 to 2026. I will cover the important topics of that in page 17, the further future initiatives for key brands.

For key brands, we are working to strengthen the brand equity, not only to generate sales, but also to ensure long-term sustainable growth. At the launch of the brand's hero product, ULTIMUNE 4.0 brand SHISEIDO engaged a global campaign aggressively across all regions, making investment at an unprecedented level to acquire new customers. The campaign keywords freedom from age and slow aging, helped to deepen customers' understanding of the products' benefits and create new markets globally. In Japan, ULTIMUNE sales nearly doubled and the brand as a whole achieved double-digit growth, maintaining its momentum in 2H. Additionally, the new SHISEIDO MEN ULTIMUNE, which incorporates the full breadth of 100 years of research into men's skin, was launched on July 21 with new promotions aiming to accelerate growth in 2H.

Clé de Peau Beauté launched a renewed version of its Key Radiance Care lotion, emulsion, and cream in Japan on July 21. Initial sales have been extremely strong, setting a stage for subsequent global launches. Additionally, on July 25, Nicole Kidman became the new global brand ambassador. Through this, we aim to further strengthen our positioning as a luxury beauty brand, accelerating growth in Europe and the US, and expand our scale globally.

For NARS, in Q3, we will relaunch the brands iconic multiple line and create buzz through limited editions and new colors tailored to each region. In addition, we will continue to strengthen our loyal customer base and accelerate sales through a lineup of technologically advanced and topical products, including brands and items that are too numerous to introduce here.

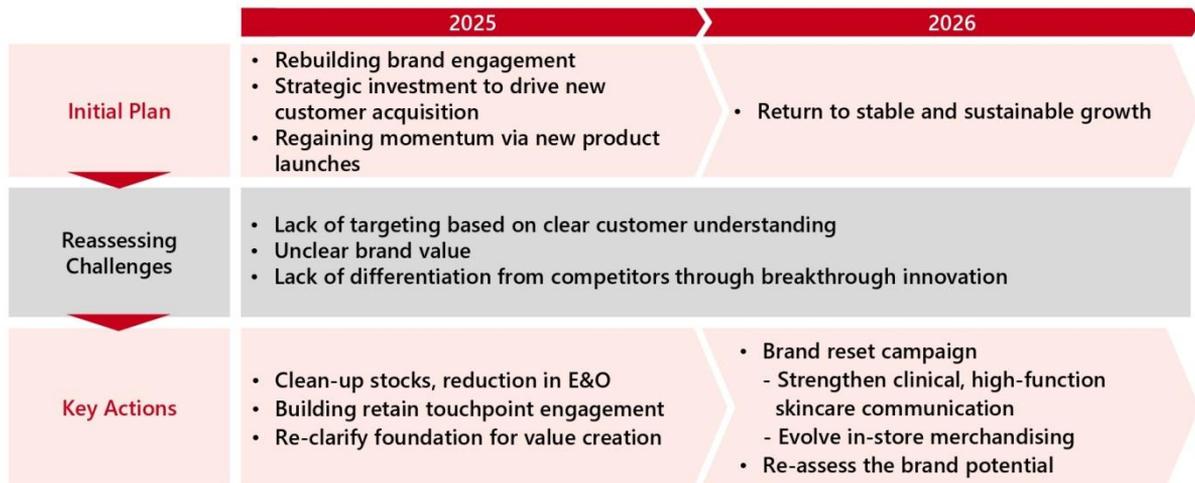
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Drunk Elephant: Challenges Reassessed by the Global Team



18

Now page 18.

Drunk Elephant continued to suffer from a challenging situation with falling the Q2 results far short of expectations. In light of this, headquarters and local offices work together to conduct a fair and transparent brand review and identified new issues to achieve a turnaround. There are three major challenges.

First, the brand lacked targeting based on a clear understanding of customers. Two years ago, we achieved significant sales growth, thanks to social media buzz around our hero product. Since then, however, the brand's positioning has become unclear, and our customer base has weakened as our original target customers have drifted away from the brand.

Regarding brand value, our once innovative, clean formula has now become commonplace in the US market. Our current communications do not adequately highlight the uniqueness and value proposition of our brand over competitors, making it insufficient to attract new customers. Furthermore, our products lack groundbreaking innovation, causing us to lose market presence and competitive advantage.

Therefore, we have postponed the strengthening of our clinical and high-performance skin care communications and review of our sales floor layout, which we explained last time. And this year, we will first clean up our market inventory, reduce certain uneven inventory, build in-store engagement, and redefine our value creation foundation. This will lead to successful brand reset campaign from next year onwards.

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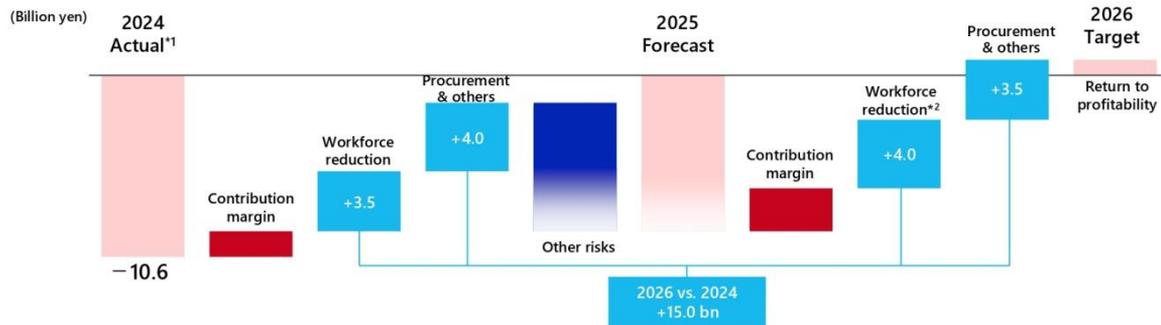
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Americas: Steady Progress Towards Returning to Profitability in 2026

● Accelerate turnaround strategies under the new leadership

- Achieve operational excellence by optimizing our organization; rebuild resilient business model and cost structure to drive sustainable profit growth
- Key structural reform actions to be completed, moving to the next phase of continuous profit enhancement
 - Cost reduction benefits : ¥15.0 bn per annum, YoY 2025: +¥7.5 bn (Q3~), 2026: +¥7.5 bn (~Q2)
 - Workforce reduction : ¥7.5 bn per annum
 - Procurement & Others : ¥7.5 bn per annum
 - Downsize office spaces (structural reform expenses recognized in Q3), optimize indirect procurement



*1 From 2025, we have implemented changes to segment reporting in order to have better grasp on profitability of each segment. For details, please refer to the [news release published on March 28, 2025](#).
 2024 results have been restated to reflect these changes.

*2 Carry over effect from actions taken in Q3 2025

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Now next page 19, we will discuss the efforts to achieve profitability in Americas business by 2026.

As previously announced, under the new management structure with Alberto as CEO, our Americas business has swiftly implemented a turnaround plan, completed key restructuring actions, and is now moving to phase of continuous improvement. By streamlining and simplifying our organization, we have departed from silos and clarified accountability between functions. This will enable us to streamline our operations and optimally reallocate our resources even with a limited workforce, improving the flexibility and agility of the entire organization. As a result, we believe that we will have created an environment for even stronger innovation, enabling us to achieve sustainable growth and strengthen competitiveness.

Cost reduction benefits of this structural reform are expected to be approximately JPY15 billion per annum from mainly Q3 to Q2 of next year. We expect the half of the impact to be JPY7.5 billion this year and the remaining half JPY7.5 billion in next fiscal year. As for the breakdown, JPY7.5 billion, which is half of the impact will be from workforce reduction, and the remainder will be expense reductions such as downsizing office spaces and optimizing procurement. For office space downsizing, we are planning to post structural reform costs north of JPY4 billion in Q3. Americas loss exceeded JPY10 billion in 2024, but we are steadily making progress to returning to profitability in 2026.

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FOCUS ERP System*: Implementation Completed Globally; Set to Drive Operational Agility and Productivity Across the Organization

Progress Update

- ✓ With FOCUS ERP go-live in Japan & Global Headquarters in July, standardization and integration completed globally
- ✓ Operations standardized across all regions at higher levels
- ✓ "Global One IT" launch: global initiative aimed at optimizing Shiseido's overall IT landscape
 - Reinforcement of business contribution
 - Efficient use of IT resources: economies of scale, elimination of redundancies

Transition into the Value Realization

Data & Process Standardization

- Timely performance monitoring by region, sales entity, and brand on a day-to-day basis by utilizing accounting and supply-chain data
- Agile decision-making process aligned with evolving business conditions
- Optimizing inventory turnover, minimize excess inventory

System

- Achieve cost reductions by implementing effective IT operations globally
- Extend standardization to affiliated companies to maximize the benefits of the integration



* Sales, Logistics, and Finance

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Next, please move on to slide 20.

In 2H of this year, we were planning to implement FOCUS ERP in Japan and global headquarters, and we have been able to go live in July, and global implementation was completed. With this, standardization and integration of system data was completed globally, and we achieved 80% standardization within FOCUS system globally. By launching Global One IT team, we will integrate IT environments that tend to be fragmented by region and enable quick and flexible responses to global business needs. With this, we will increase agility and promote employees' productivity improvements.

From here on, we will be transitioning to value realization phase on a full-fledged basis. Real-time visibility into accounting and supply chain data enables rapid global response to issues and opportunities, leading to faster and more accurate decision-making. It also contributes to improving inventory turnover and reducing inventory imbalances by maintaining appropriate inventory levels, thereby contributing to improve ROIC. As we will be able to capture each region's situation using common metrics, it will make it easier for us to share best practices. At this moment, the system has not been applicable to some of the regions, but we aim to maximize return on investments with headquarter support.

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Solid Progress and Next Steps Forward

Action Plan 2025-2026

Legend ● Done/Benefits Delivered (Timeline of benefit delivery)
○ Benefits to be Delivered

New Medium-term Strategy

Reinforce Brand Foundation	<ul style="list-style-type: none"> Focus our efforts on key brands: Core 3 & Next 5 Maximize gross profits Develop cohesive operating model across brands and regions to boost brand equity 	<ul style="list-style-type: none"> ○ Strengthen key brands Boost sales composition of Core3 & Next 5 <i>Clé de Peau Beauté, ELIXIR</i> Continuous share expansion Tackling various challenges and conditions of each brands ○ Strategic withdrawal or downsizing of brand ● China: Withdrawal of 5 brands (2024) ● Japan: <i>Drunk Elephant, TUNE BEAUTE, ROOTINA</i> (2025)
Rebuild Profitable Foundation	<ul style="list-style-type: none"> Reduce fixed costs across the organization Enhance profitability in Japan, Americas, EMEA, and Asia Pacific Rebuild sustainable business foundation in China and Travel Retail 	<ul style="list-style-type: none"> ○ Structural reform benefits of ¥50.0 bn^{*1} ● Japan: ERIP^{*2} (from Q4 2024) ● China & TR: Streamline organization/workforce (from Q1 2024) ● Americas: Streamline organization/workforce (from Q3 2025) ● China & TR: Change in management structure, enhanced cohesive approach to Chinese consumers <div style="margin-left: 20px;"> Number of employees -13% 2025-end estimate^{*3} vs. 2023-end actuals </div>
Enhance Operational Governance	<ul style="list-style-type: none"> Accelerate asset-light initiatives Evolve global operational framework Sharpen financial governance and accountability 	<ul style="list-style-type: none"> ● Japan: Streamlined regional offices (2023) Flagship store closures in Harajuku/Ginza (2024) ● Shin-Tamachi Office closure (2025) ● China: Integration of China Innovation Center (2024) ○ EMEA: Regional HQ office relocation (from Q1 2026) ○ Americas: Downsizing regional HQ office /sub-leasing (from Q3 2025) ○ Financial discipline: Launch of Investment/Divestment Committee ○ Completed global implementation of FOCUS ERP System

^{*1} Amounts are cumulative total for 2025 and 2026. For details, please refer to p.15
^{*2} ERIP: Early Retirement Incentive Plan
^{*3} Assumptions used in this estimate: Americas: 2025Q3 workforce reduction reflected in 2025Q2-end headcount. Other regions: No change in headcount from 2025Q2-end to 2025Q4-end

- Profitable growth
- Pursue an optimized cost structure
- Reinvest for next phase of growth

Slide 21 is Action Plan 2025 to 2026 assessments and future direction.

So far, we have been communicating that we need to complete all actions within this year in order to deliver full benefits in 2026. We have been focusing on speed. As of today, we believe the progress is on track. There are some measures that have not been announced, but we plan to thoroughly implement them during the remainder of this year.

As has been mentioned until today, completion of the action plan is merely a starting point. As a strong winning player in the global competitive environment that continues to generate solid returns, we must continue to evolve further. It is not enough to just take action based on the plan. There are more challenges that we need to tackle and more room for us to evolve. In order to bridge the gap between the ideal state and the current, we are currently working on a medium-term management plan, which we plan to announce by the end of this year. The themes will be to achieve sustainable profitable growth, optimize cost structure, and reinvest for the next growth strategies. By clarifying the issues that need to be addressed, we aim to accelerate action and achieve profitability that exceeds capital cost at an early stage.

This concludes my presentation.

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Question & Answer

Kuwahara [M]: This is Kuwahara from JPMorgan. I would like to double-check the numbers as there were some changes from 1H to 2H. In 1H, the core operating profit was better than the original expectations. What was the amount of increase overshooting the target? How much costs do you expect to recognize from Q3 and onwards? And then the rest, how much benefits did you realize through your efforts?

Regarding the full-year outlook shown on page 12, it looks like you will have to take a range of rigorous cost management measures to address risks to offset a lower gross profit. I hear that from Q3 last year, you adopted an emergency plan with sharp reduction in bonuses and other benefits. Is that the right understanding that you will take similar measures in terms of cost management? In that case, I would like to confirm as to whether the impact will be reflected in 2026?

Hirofuji [A]: Well, thank you for your question. Your first question is about our initial core OP target for 1H which was estimated to be about 40% of the full-year target of JPY36.5 billion. Therefore, based on that estimate, there has been an uplift of JPY8 billion. Well, we started the year with highly uncertain market conditions so we have been highly disciplined with cost management across the organization. And also, we made a thorough review on costs with further reductions while analyzing expenses based on returns.

With respect to the size of costs expected to be recognized in 2H, we expect it to be in the size of about JPY5 billion. That was some phase out from 1H to 2H in terms of the cost implementation. However, we would like to highlight the fact that we have been firmly committed to investing in marketing vital for growth and we are confident our strategy will fully contribute to accelerating growth in the latter half of the year.

With respect to 2H, currently we expect to achieve core OP of JPY13 billion after weighing out the costs and benefits to be recognized. We anticipate that there is a downside risk of undershooting the target by JPY30 billion on a full-year basis, of which about JPY25 billion will be reflected in 2H sales. So, by taking all factors into account, including a lower-than-expected gross profit driven by sales decline, the tariff impact, the effect of tighter cost control, etc., we have reiterated the full-year earnings forecasts.

With respect to the details of cost control measures, we have incorporated the impact of around JPY5 billion to be realized through additional actions taken under the lead of the GTC. So that would also be one of the factors to absorb some negative impact on earnings. In terms of your question about the outlook for 2H within the context of the full-year guidance, indeed, we had reduced bonuses in Q3 last year and we ought to offset that impact this year.

Kuwahara [Q]: Understood. Thank you. In that sense, for this fiscal year, is it correct to understand that cost reduction initiatives are those mainly led by GTC, and bonus expenses will be normalized in 2H in line with your full-year forecast?

Hirofuji [A]: Yes, you're right. Since there will be an increase in personnel expenses, we expect to see an uptick in the employee cost to sales ratio in Q3 due to a rebound from the bonus reduction in the prior year.

Sato [M]: This is Sato from Morgan Stanley. This is supplemental to Kuwahara-san's question. Based on your explanation, is it correct that you are recognizing a downside risk of undershooting the net sales target by JPY25 billion in 2H?

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

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Sato [Q]: And if that's the case, then the impact will be roughly about 5% which means the original plan was plus 10% in 2H, but then you reduced it to plus 5%. Is that right?

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

Sato [Q]: Well noted. I understand China is recovering, but is there any other areas of concern for your business right now? In Japan, for example, the landscape of inbound market is changing already, and your initial assumption for domestic demand is quite high. Where are the specific areas of risks in terms of achieving your sales target? I believe it might be the Americas and Japan, but could you please share your views on that?

Hirofuji [A]: Okay. Understood. This is repetitive but while our initial target for full-year sales was based on about 4% YoY growth, but now we believe there might a risk that it will remain flat to last year. The main factors for that would be, first of all, we started to see a downward trend in Japan inbound sales towards the end of 1H, growing at slower-than-expected pace. So while we initially expected a mid-teens% inbound sales growth at the beginning of the year, there is an increased likelihood that it will grow at a roughly flat or slightly minus rate than expected.

Secondly, as you have mentioned, we have this recovery challenges Drunk Elephant in the Americas. We anticipate ongoing headwinds for the brand, falling behind our expectations. On the positive front, however, there are upside factors as well. China & Travel Retail, for example, is starting to firmly capture opportunities for sales growth towards 2H albeit the low base in last year. We will implement various measures to maximize the benefits of that and as Fujiwara explained earlier, this will be the key particularly in 2H as we have a rich new product pipeline built for our core brands. So we are well positioned to maximize growth opportunities through new product launches.

Sato [Q]: Understood. Also, regarding the cost of JPY5 billion to be recognized in 2H, how is it being allocated between the region? Has it been incurred in 1H by any specific region?

Hirofuji [A]: Frankly, it is dispersed across all regions. Of course, the cost is allocated according to regional mix, but there have been some costs in 1H to be recognized in 2H that have been incurred in Japan as well as China Travel Retail.

Sato [Q]: So it is weighted more in Japan and China & Travel Retail.

Hirofuji [A]: Yes, and in terms of those two segments, the weight is higher in China & Travel Retail.

Miyazaki [Q]: Miyazaki from Goldman Sachs. I couldn't hear the answer to the first question very well, so please let me confirm. Regarding core operating profit, I would like to know how much it exceeded the initial target announced at the beginning of the year. I believe that the target for 1H was expected to make up about 40% of the full-year guidance, so is it correct that the gap between the initial assumption and the actual result for 1H has been the net increase? I would like to confirm the exact figure for that. In addition, I would also like to know if you have any clear idea about whether the Company will remain committed to realize structural reform benefits of JPY25 billion in the next fiscal year now that you have delivered JPY5 billion ahead of the plan by swiftly implementing the reforms in the Americas. I would appreciate if you could explain the factors behind achieving the reform benefits of JPY50 billion in two years.

Hirofuji [A]: For 1H, our initial core OP target for was about 40% of JPY36.5 billion full-year target, which had worked out to be about JPY15 billion, so there has been an uplift of about JPY8 billion in the actual result.

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Concurrently, we have been executing a range of cost reduction initiatives with additional measures being implemented under the lead of GTC. While we identify various downside risks in 2H, we are preparing strategic actions to mitigate them. We have increased global cost reduction target by JPY5 billion by executing structural reforms in the Americas ahead of the initial schedule. So, simply, this will be the primary factor behind the uplift of GTC reduction in this year. So JPY5 billion was mainly driven by the structural transformation in the Americas region, which has been done faster and deeper than it was originally planned, yielding an additional impact of JPY5 billion. In light of this, the reduction target for fiscal 2025 and 2026 has been increased from JPY45.0 bn to JPY50.0 bn on a cumulative basis which is expected to contribute to profitability.

Miyazaki [Q]: Thank you. So let me double-check. Out of JPY8 billion uplift in 1H, JPY5 billion will be used and recognized as costs in 2H, is that right?

Hirofuji [A]: Well, yes, the cost has been pushed into 2H on the assumption that it would be utilized. However, taking into account the potential risk of lower contribution margin associated with a downside risks to achieving the sales target, we will continue to analyze expenses going forward as we are determined to pare back spending through global-wide cost management.

Oshima [M]: The next question is Oliver Matthew from CLSA.

Matthew [Q]: Could I ask a first question? I know you're still working on the midterm plan, but with the good progress you're making, are we correct to assume that you're still targeting double digit? Your Chair recently suggested you should be targeting more than 10% operating profit margin.

Fujiwara [A]: Yes. Thank you very much for your questions. Yes, so we want to be the winner of the global company. So therefore, the double-digit OP margin is the target for us.

Matthew [Q]: Great. I think you will get there. Second, a bit of a technical question. On the page 23, you show Adjustments. I think these are same as headquarter costs, but they declined a lot from last year, like by JPY8 billion. Could you explain what the difference is?

Hirofuji [A]: Thank you for raising this point. This is indeed the adjustment piece would be incorporating the HQ costs. However, there are some technicalities with respect to foreign exchange rates differences. So allow my IR team to be following up separately with you to clarify what exactly is captured in the Adjustments, as well as the Others actually.

Matthew [Q]: Okay. But we should assume they continue a kind of positive downward trend. Is that right?

Hirofuji [A]: Yes. Indeed, headquarter cost has been reduced since in this quarter as well through cost reduction measures that we have been implementing, and that is indeed captured in this Adjustment section. But in addition to that, there are other foreign exchange savings that is captured here as well. It is not necessarily entirely from headquarter cost reductions. So I just wanted to clarify that point.

Hirozumi [Q]: My name is Hirozumi of Daiwa Securities. I have two brief questions. So you mentioned that there was this uplift of JPY8 billion in profit, but I just want to ask about the progress in terms of achieving your net sales target. Please correct me if my understanding is incorrect, but you mentioned that you have factored in JPY25 billion as a downside risk on 2H sales, but I could not quite understand what you mean by

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“factor in”. Since you have not changed your full-year guidance, could you explain about the progress in 1H for achieving the net sales target and what we should expect in terms of the full-year outlook.

Hirofuji [A]: Well, needless to say, we have not yet fully reflected that impact yet, but there are certain risks to achieving the net sales target. While we initially expected about 4% growth for the year, currently it will likely remain flat versus last year. In 1H, sales fell short of target by JPY5 billion 1H and expected to fall short of target by JPY25 billion in 2H. So, there is a downside risk to achieving the target mainly in 2H.

Hirozumi [Q]: There's a risk, but still there's an opportunity. That is why your full-year guidance has not been changed. Is that correct?

Hirofuji [A]: Yes, that is correct. Of course, we, would like to manage risks properly. So, our aim is not only to achieve the net sales target but to execute disciplined cost management according to net sales performance.

Hirozumi [Q]: On page 13, so net sales plan has not been changed, but you are making some heads up for 2H achievement as there is a risk to downside of about JPY25 billion in 2H, is that correct?

Hirofuji [A]: Yes.

Hirozumi [Q]: Now, I have a question about how we should understand the net sales in the Americas region. On page 6, it shows +4% for Q2 in the Americas and I believe this is the sell-in. On the other hand, on page 10, it shows that you posted –high single% in Q2 consumer purchases. What are the factors behind the gap between the two?

Hirofuji [A]: Indeed, there is a gap between sell-in and sell-out. We have this much anticipated new product launch in Q3, namely a mineral sun care product from SHISEIDO and the impact of advance shipments for that product has been reflected in Q2 prior to the launch. The actual sales for the customer sell-out will be realized from Q3 onwards.

Hirozumi [Q]: Understood. Moving back to page 10, how do you perceive –high single% in consumer purchases? How would you evaluate that yourself?

Hirofuji [A]: We believe consumer purchases in the Americas will be on a growth trajectory. In addition to current retail channels, we have been penetrating into EC market a little further and this strategy is expected to lead growth in 2H.

Hirozumi [Q]: Understood. The U.S economy is highly uncertain and difficult to draw scenario, but how do you expect customer purchases to recover in the region from Q3 onwards?

Fujiwara [A]: Well, we expect that the current economic conditions will have a limited impact on our business and the global beauty market seems to be on a recovery trend. So, while there are a range of external factors, we expect the broader beauty market to remain relatively stable going forward.

Hirozumi [Q]: So, that means you expect the customer purchases will recover from Q3 onwards on the back of favorable market conditions, is that correct?

Fujiwara [A]: Yes, that is correct.

Miyasako [Q]: This is Miyasako from Mizuho Securities. I would like to ask about China & Travel Retail as you mentioned that there is an upside potential. Up to the end of 1H, how much did you exceed the target in

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terms of sales and profit? Also, I would like to know whether it was due to better market conditions or is it that your market share is increasing? And also, how do you view the market in 2H?

Hirofuji [A]: Just to clarify, it does not mean that China & Travel Retail has significantly outperformed our expectations. Also, the situation in the market is as challenging as it is for us. However, despite such a challenging market environment, our key brands such as Clé de Peau Beauté and NARS continue to perform very strongly, and we are steadily capturing share gains, and this is something that's very positive for us. We hope to maintain this momentum in 2H onwards as we have major upcoming events in 2H to maximize the impact. From 2H, particularly in Q3, we have a very low base of over 20% YoY decline in China & Travel Retail last year, so given that, we believe that we are surely be able to return to growth.

Miyasako [Q]: I believe that you mentioned that Travel Retail had outperformed your expectation in Q1, but is it correct to understand that in Q2 China and Travel Retail have both performed slightly better than you had expected?

Hirofuji [A]: Yes, exactly. The market has been recovering gradually. And also in Q2, we have been able to expand our market share. So we are on track for steady recovery.

The outlook for Travel Retail still remain highly opaque, so our outlook is slightly conservatively because of that. But of course, if the market recovers, this segment will make significant contribution to our performance. As for China, as Hirofuji-san mentioned earlier, consumer purchasing trends are gradually recovering. While we have a rather pessimistic outlook toward Double 11, we also think that there might be an upside there as well given the strong sales we delivered during 618 promotion in 1H.

Miyasako [Q]: Last year, I think you provided an outlook that you will gradually reduce exposure to China & Travel Retail from now on, is there any changes in your views? If there is any changes in your strategies for China & Travel Retail over mid- to long-term, could you please share with us?

Fujiwara [A]: For China & Travel Retail, it's not that we intentionally withdraw products that are selling well in the market to forcibly reduce our exposure. Because it's a big market, we will continue to pursue share gains and while it is a bit difficult to explain, we want to avoid low quality or short-term growth by setting a big budget based on undue expectations. In other words, we plan to take control of China & Travel Retail market by ensuring high quality growth over long-term.

Miyasako [Q]: Thank you. This will be my last question. I think you mentioned that you have increased your market share. Is it in the key brands? Or is it that your share is growing in China overall?

Hirofuji [A]: Our market share fell in Q1, but it was confirmed that we increased our market share in the prestige beauty market in Q2.

Miyasako [Q]: So that means share of brand SHISEIDO has increased also.

Hirofuji [A]: We have been able to increase our market share by offsetting the weakness of Brand SHISEIDO with the strong performance of NARS and Clé de Peau Beauté.

Miyasako [Q]: So, there is no change with the situation of brand SHISEIDO. Do you expect to see a recovery with the brand going forward?

Hirofuji [A]: Yes, to just break down the situation a bit, we have been able to firmly capture share in EC, but in offline channels, there is a clear gap between retailers that are selling well and those that are not. So, brand SHISEIDO has been affected by that trend, struggling a bit with a drop in shares. But increased its share in online market.

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Kawamoto [Q]: Kawamoto from Jefferies. I would like to know the probability of the plan shown on page 19. For example, I would like you to provide more details about the size of workforce reduction or the scale of office downsizing. Also, regarding “Other risks” indicated in the dark blue bar in the chart, what kind of risks are you specifically identifying and what are the degrees of those risks? Also, the impact of “Contribution margin” in the red bar seems quite large. Overall, it looks like the target is based on the assumption that you will be delivering topline gains in order to achieve it. I just want to know probability of target attainment according to this chart.

Hirofuji [A]: In terms of the conviction and the probability of this chart, this is quite trustworthy. As a side note, we have already implemented workforce reduction and structural reforms in the Americas and that has been reflected in this chart.

In terms of office downsizing, we have already reduced floors and, as it was explained by Fujiwara’s presentation, as a result of such cost reduction, JPY4 billion or so of one-off costs will be recognized in Q3. Regarding workforce reduction, we have already implemented with reduction of about 300 headcounts. So the probability of achieving our target is quite high.

“Other risks” include challenges with Drunk Elephant, future business prospects, lower gross profit driven by the weakness of Drunk Elephant, and also other risks including increase in excess inventory as well. We will make sure to offset those potential risks by implementing structural reform actions right now. That is what we are doing at the moment.

Kuwahara [Q]: Kuwahara from JPMorgan. I would like you to elaborate on impairment test conducted in the Americas. I understand that the results were fine this time, but since you recognize that risk is increasing, you will stay committed to enhance financial transparency. But what do you mean by “risk is increasing”? Is it a risk associated with delayed recovery with Drunk Elephant? Or something related to market environment?

Hirofuji [A]: Regarding the areas where we identify risks, regardless to say, it includes a slowdown in sales recovery including Drunk Elephant. Also, higher discount rate along with higher Interest rate, as well as the impact of tariffs on China imports which has become prominent now. We update our future cash flow projections based on these risk assumptions while evaluating cautiously the possibility of impairment loss.

We do not conduct impairment test by brand as assets are tested by region. Based on the overall future cash flow in the Americas and by comparing the fair value and carrying amount, we have identified increasing risks since the start of the year and therefore conducting impairment testing on a quarterly basis. In Q2, we have disclosed this in light of a delayed sales recovery with Drunk Elephant, higher discount rate, and other factors.

Kuwahara [Q]: Understood. So, you mentioned that there has been a progress. Does it mean that you are looking at the actual results and those downside risks to achieving sales target that you have mentioned earlier are not being applied in the test?

Hirofuji [A]: No, those risks are included in the test at the moment. In Q2, assumptions were also reflected in the test. And in Q3, we plan to conduct an impairment test based on the progress confirmed in the actual results as well as our current forecast for sales and profit.

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Yamanaka [Q]: This is Yamanaka from SMBC Nikko. Regarding your profit outlook for the next year, how you are estimating the potential uplift or downside? If you have any idea, I would appreciate if you could share with us. In November last year, you announced the plan to increase CAGR to 3% on LfL basis from 2024 with core OP margin of 7% with core OP profit of JPY70 billion and in the next year, we are expecting that you are looking at profitability to achieve those targets.

However, for the net sales, there is the downward risk. But still, the cost reduction effort is now better than expected. But if net sales in 2H turns out to be lower than expected, do you think it would be difficult to achieve JPY70 billion? Or if Travel Retail is gradually picking up since the end of Q2, then you will have a quite better profit mix compare to your initial assumption. So, in that case, do you think JPY70 billion is still achievable even if sales remain below expectation? Could you please share your thoughts on that?

Hirofuji [A]: The official guidance for 2026 will be disclosed at the full-year result announcement, but indeed, while we have a range of downside risks in terms of sales, at the same time, we have also been able to firmly reduce costs, making a steady progress on rationalization. As we are making a shift towards profit-oriented management approach, we remain unwavering in our commitment to achieve 7% target.

Fujiwara [A]: Let me add a few more points. In terms of net sales, there are a range of factors that may affect sales and, therefore, we are evaluating the risks properly to ensure top-line growth. Within that context, we will rebuild our cost structure to achieve 7% profit target which is the focus of targets laid out in the Action Plan. While we anticipate some volatility in earnings, we are strongly committed to tackle challenges in order to rebuild our business foundation to achieve 7% target.

Yamanaka [Q]: Thank you. So, you are strongly committed to achieve the OP margin of 7% by rigorously monitoring the situation, but you will disclose the amount at the full-year result announcement, is that correct?

Fujiwara [A]: Yes, you're right.

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

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [inaudible].*
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