



Shiseido Company, Limited

2026 Q1 Financial Results Briefing

May 12, 2026

Event Summary

[Company Name]	Shiseido Company, Limited	
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[Event Name]	2026 Q1 Financial Results Briefing	
[Date]	May 12, 2026	
[Time]	18:00 – 19:04 (Total: 64 minutes, Presentation: 25 minutes, Q&A: 39 minutes)	
[Number of Speakers]	3	
	Kentaro Fujiwara	Director, Representative Corporate Executive Officer, President and CEO
	Ayako Hirofuji	Representative Corporate Executive Officer, Chief Financial Officer
	Yuki Oshima	Vice President, Investor Relations Department

Presentation

Fujiwara: Thank you very much. This is Fujiwara, the CEO and President of the company. Now, first, let me introduce the key points of Q1 2026 financial results.

Key Highlights of 2026 Q1 Results Briefing

Q1 Results: Despite lower net sales, core OP grew via structural reforms and cost management
Full-Year Forecast: Initial full-year target maintained with agile actions amid geopolitical risks
2030 Medium-Term Strategy: Accelerating transformation to navigate rising uncertainty

- **Net Sales: ¥232.0 bn (YoY LfL -3%)**
 - Japan-China tensions: Impact remained within expectations
 - Net sales declined due to timing shifts in some brands, inventory adjustments
 - Execute agile corrective actions by brand based on issue characteristics
- **Core Operating Profit: ¥13.0 bn (YoY +¥4.8 bn)**
 - Structural reform benefits evident centered on the Americas; global cost management strengthened
- **Geopolitical risks**
 - Japan-China tensions: Japan inbound outlook revised down due to prolonged impacts; Accelerating China & Travel Retail recovery
 - Middle East situation: Monitoring raw material and logistics cost pressures, along with supply chain risks including production delays
- **Deliver full-year targets through disciplined, controllable actions amid elevated risks**
 - Adapting to market changes through disciplined resource allocation, stronger cost management, and potential pricing actions

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Page three. In Q1, while challenges remained in terms of sales, profit growth exceeded expectations. Core operating profit was JPY13 billion, an increase of JPY4.8 billion YoY. We believe this is a result of the structural reforms implemented over the past few years functioning effectively even during periods of declining revenue, improvements in fixed cost structure and investment decisions discipline have strengthened our so-called management strength or resilience to environmental changes.

On the other hand, net sales were JPY232 billion, representing a real growth rate of minus 3%. This year's biggest theme is shifting to a new growth trajectory, and we take this figure very seriously. However, we have clearly identified the factors contributing to the declines in sales by brand and region, separating them into one-time factors and structural challenges, and we have already taken some actions. I would like to cover that later.

Previously, optimism about the sales growth and delays in responding to market changes sometimes led to the cost adjustment being delayed. Currently, we are shifting to a system that allows us to grasp the business situation in a timely manner and control it flexibly based on priorities. This profit increase is not the result of the short-term reduction in marketing. We believe the essence of this increase lies in our organizational ability to distinguish between necessary investment and cost to be controlled while maintaining investment in marketing and R&D as our focus area.

The business environment remains fluid, and geopolitical risks are rising. Still, the overall impact of Japan-China tensions is manageable. We anticipate a prolonged slump in inbound demand in Japan, but we plan to

compensate for this with accelerated growth in China and travel retail. We have already seen an improvement in momentum, particularly in Hainan Island in Q1, and we will maximize this opportunity.

On the other hand, the business risk due to heightened tensions in the Middle East has increased significantly, and we recognize that this is where our fundamental management capabilities will be tested. The key is how we can accelerate our transformation action. In response to this uncertainty, we intend to accelerate the implementation of the cost efficiency measures equivalent to three points outlined in our midterm plan as early as possible. Our earnings forecast remains unchanged at this point.

Among the Middle East impacts, the Company can absorb the increased cost for raw materials and logistics. However, if the current situation prolongs and supply constraints, production cuts and stock-out risks materialize, we will assess the situation from Q2 onwards and update our earnings forecast as necessary.

Overview of 2026 Q1 Results

(Billion yen)	2025 Q1	% of Net Sales	2026 Q1	% of Net Sales	YoY Change	YoY %	YoY FX-Neutral %	YoY LfL %
Net Sales	228.2	100%	232.0	100%	+3.7	+2%	-3%	-3%
Core Operating Profit	8.3	3.6%	13.0	5.6%	+4.8	+58%		
Non-recurring Items	-1.0	-0.5%	-0.7	-0.3%	+0.4	-		
Operating Profit (Loss)	7.2	3.2%	12.3	5.3%	+5.1	+71%		
Profit (Loss) before Tax	7.4	3.2%	13.3	5.7%	+5.9	+79%		
Income Tax Expense	3.7	1.6%	4.9	2.1%	+1.3	+34%		
Profit (Loss) Attributable to Owners of Parent	3.7	1.6%	8.4	3.6%	+4.7	+127%		
EBITDA	21.0	9.2%	25.5	11.0%	+4.6	+22%		
Free Cash Flow	-12.4	-5.4%	-7.1	-3.1%	+5.2	-		

FX rate for 2026 Q1:
USD/JPY: 156.8 yen
EUR/JPY: 183.6 yen
CNY/JPY: 22.7 yen

(Same period of the previous year)
USD/JPY: 152.5 yen
EUR/JPY: 160.4 yen
CNY/JPY: 21.0 yen

Net Sales	: YoY (LfL)	-3%	Overall impact of Japan-China tensions remained within expectations; net sales declined due to timing shifts and inventory adjustments
Core OP	: YoY	+¥4.8 bn	Core OP grew as structural reform benefits and cost discipline offset lower gross profit from net sales declines

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Hirofuji: This is CFO, Hirofuji. Please see page four, an overview of Q1, the details for the Q1 results and the situation of each region. Well, our recorded net sales increased by JPY3.7 billion. In reality, sales decreased by 3% after excluding FX impact and others. On the other hand, core operating profit increased by JPY4.8 billion YoY to JPY13 billion, clearly demonstrating the result of structural reforms and financial discipline. We have achieved increased profits in all categories, operating profit, profit before tax and net profit.

Core Operating Profit: Structural Reform Benefits and Cost Discipline Offset Net Sales Decline

(Excluding Non-recurring Items) (Billion yen)	2025 Q1	% of Net Sales	2026 Q1	% of Net Sales	YoY Change	YoY %	Pts Difference
Net Sales	228.2	100%	232.0	100%	+3.7	+1.6%	-
COGS	51.2	22.4%	50.0	21.6%	-1.2	-2.4%	-0.9pts
Gross Profit	177.0	77.6%	181.9	78.4%	+4.9	+2.8%	+0.9pts
SG&A	169.2	74.1%	170.7	73.6%	+1.5	+0.9%	-0.5pts
Marketing investments	63.6	27.9%	66.4	28.6%	+2.8	+4.4%	+0.8pts
Brand development / R&D	8.6	3.8%	8.2	3.5%	-0.4	-4.1%	-0.2pts
Personnel expenses*	55.3	24.2%	55.4	23.9%	+0.1	+0.2%	-0.3pts
Other SG&A	41.7	18.3%	40.6	17.5%	-1.1	-2.5%	-0.7pts
Other Operating Income / Expenses	0.4	0.2%	1.8	0.8%	+1.3	+307.6%	+0.6pts
Core Operating Profit	8.3	3.6%	13.0	5.6%	+4.8	+57.9%	+2.0pts

COGS	: Improved with brand / product mix improvement, lower allowance for excess inventory write-offs
SG&A	: Reduced on an FX-neutral basis
Marketing Investments	: Positioning for growth through focused marketing investment in key brands and new products
Personnel Expenses*	: Declined despite pay raises, supported by structural reform benefits and natural attrition
Other SG&A	: Decreased driven by structural reform benefits and agile cost management

* Including POS personnel expenses

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Next, on page five, details of core operating profit.

COGS has improved due to improvements in the brand and product mix and the decrease in allowance of excess inventory write-offs.

SG&A appears to have increased due to the weak yen, but in reality, the amount has decreased, and the percentage of sales has also declined. The marketing investment ratio has increased due to the strengthening of the brand's value of focus area and upfront investment for new products. Meanwhile, both personnel and other expenses have decreased as a ratio to sales. Despite increased costs due to salary increase, personnel costs have decreased thanks to the effects of structural reforms in the Americas and the optimization of necessary human resources resulting from overall productivity improvement.

Other expenses have also decreased because of structural reforms and cost management.

Net Sales by Reportable Segment: Impact of Japan-China Tensions within Expectations; Net Sales Declined on Shipment Timing Shifts and Inventory Adjustments

YoY LfL	2025 (vs. 2024)					2026 (vs. 2025)
	Q1	Q2	Q3	Q4	FY	Q1
Japan	-2%	+2%	+2%	+2%	+1%	-4%
China & Travel Retail	-14%	-7%	+8%	+2%	-3%	-1%
Asia Pacific	-1%	-0%	-2%	+9%	+2%	-1%
Americas	-19%	+4%	-9%	-10%	-9%	+5%
EMEA	-9%	+2%	+22%	+1%	+3%	-10%
Total	-9%	-3%	+4%	+1%	-2%	-3%

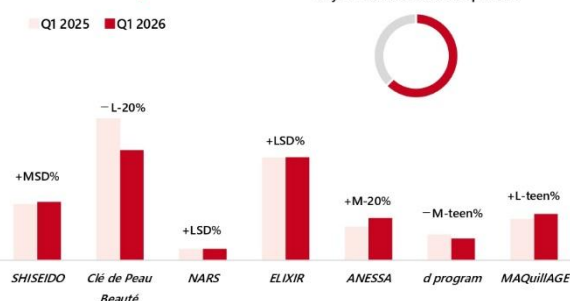
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Next, page six, net sales by region. Although the impact of Japan-China tensions remains within expectations, inventory adjustments and others affected ended up with lower-than-expected global figures. While the Americas saw a 5% increase in sales, the impact of Japan-China tensions affected negatively inbound business in Japan as well as China and travel retail, and sales in EMEA decreased due to the impact of initial shipments of new products in the previous year.

Japan: Local Remained Robust, Driven by Key Brands and New Products; Maintained Profitability Despite Significant Decline in Inbound Sales

(Billion yen)	2025 Q1	2026 Q1	YoY Change	YoY %*
Net Sales	74.2	71.2	-3.0	-3.6%
Core Operating Profit	11.3	10.4	-0.9	-8.1%
Core OPM	15.3%	14.5%	-	-0.7pts

Net Sales by Brand



Q1 Market

- Local: Modest growth continued
- Inbound: Visitor growth continues, but Chinese tourist decline drives market contraction

Q1 Consumer Purchases

- MSD%
- Local: +LSD%
- Led by key brands
SHISEIDO, ELIXIR and ANESSA: Double-digit growth
Clé de Peau Beauté: declined due to tough comps from last year's pre-hike demand
- Inbound: -H-20%
- Significant headwinds from lower Chinese tourism; capturing demand in other countries and regions including Thailand, Taiwan, and South Korea

Q1 YTD Net Sales & Core Operating Profit

- Further improvements in labor productivity following structural reforms
- Marketing investments increased
- Maintained profitability despite a significant decline in inbound sales

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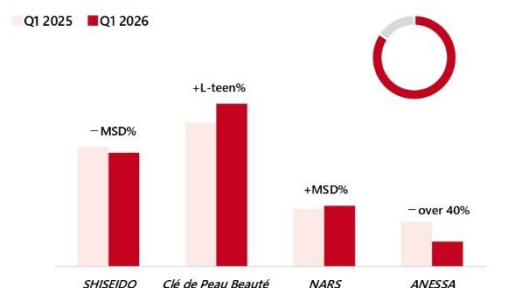
Now, details of each region. First, page seven, Japan business. Due to the slowdown of inbound caused by the sharp decline in the Chinese tourists and the impact of shipment restrictions during the transition from old to new products, net sales started with a 4% decrease, but our local business continues to maintain its strength. Local customer purchases of Shiseido, ELIXIR, and ANESSA grew by double digits. ELIXIR, in particular, is performing exceptionally well with the new brightening lotion and the emulsion exceeding 3 million units shipped in just two months since the launch. Clé de Peau Beauté is down due to the backlash from the rush before the price increase last year. However, since late April, when the effect of the backlash subsided, we have seen a partial recovery in momentum, and we will work towards recovery from Q2 onwards.

Core OPM is approximately 15%, maintaining profitability even amidst a significant decline in inbound tourism. Productivity improvement through operational efficiency and personnel optimization contributes to this. Excluding temporary factors, our key brand performance in Japan is generally strong, and we have secured stable profitability even amidst headwinds. We will continue to maintain our strategic direction.

China & Travel Retail: Recapture Shifting Demand to Deliver Full-year Growth

(Billion yen)	2025 Q1	2026 Q1	YoY Change	YoY %*
Net Sales	75.0	78.3	+3.4	-1.4%
Core Operating Profit	13.3	15.7	+2.4	+18.0%
Core OPM	17.6%	19.8%	-	+2.2pts

Net Sales by Brand



* Net Sales YoY% means Net Sales YoY LFL%

Q1 Market

- China: Delivered steady growth led by prestige
- Travel Retail: Hainan Island showing recovery signs, while retailer transitions weigh on Mainland China

Q1 Consumer Purchases

- China: - LSD% Offline: +LSD% EC: -HSD%
 - International Women's Day: Grew driven primarily by *Clé de Peau Beauté*
 - Mainland China grew; Hong Kong declined
 - *Clé de Peau Beauté* and *NARS* continued strong growth, and *SHISEIDO* maintained positive growth
 - *ANESSA* declined amid campaign timing shifts
- Travel Retail: - M-teen%
 - Significant YoY decline in Mainland China due to retailer transition
 - Hainan Island and Hong Kong recovered

Q1 YTD Net Sales & Core Operating Profit

- Net sales declined due to Japan-China tensions, but still exceeded our expectation
- *ANESSA* was affected by campaign timing shifts and inventory adjustments
- Core operating profit increased despite a decline in net sales, supported by cost management

Next, please turn to page eight, covering China and travel retail. Net sales declined 1% on a like-for-like basis but exceeded our plan, reflecting strong growth in Hainan and the fact that the impact from Japan-China relations has remained smaller than expected. We have revised our full-year outlook upward and now aim to achieve growth for the full year.

In China, we successfully maximized opportunities from key promotions such as International Women's Day and strategically focused on high functionality and high value-added products. As a result, Mainland China achieved positive growth this quarter.

Consumer purchases remained strong for Clé de Peau Beauté and NARS, while Shiseido also continued to grow. In travel retail, although sales declined due to retailer changes in Mainland China, Hainan and Hong Kong remained solid. We are successfully capturing demand through marketing activities aligned with shifts in travel destinations.

For ANESSA, we are currently in an adjustment phase aimed at inventory adjustments and market normalization, resulting in a significant sales decline. Increased inflows from unauthorized channels have created price distortions, which we believe will require time and a gradual approach to correct.

Rather than prioritizing short-term sales, we are prioritizing the restoration of pricing discipline and the protection of medium- to long-term brand value. At the same time, we will steadily grow our other brands to secure overall business sales.

Core operating profit increased despite lower sales, supported by cost management initiatives and other measures. Market conditions are also becoming increasingly complex. While Mainland China continues to maintain moderate growth, Hong Kong remains structurally weak.

In travel retail as well, momentum differences across regions have become increasingly pronounced. Hainan and Hong Kong have returned to strong growth, while Mainland China recorded a big decline due to the temporary impact of retailer changes. Going forward, we will continue to identify growth areas and flexibly allocate resources accordingly.

Americas: Progressing toward Full-Year Profitability; Shift Focus to Drive Consumer Purchases Recovery

(Billion yen)	2025 Q1	2026 Q1	YoY Change	YoY % ^{*1}
Net Sales	27.2	29.6	+2.4	+5.1%
Core Operating Profit	-1.9	0.3	+2.2	-
Core OPM	-6.5%	1.1%	-	+7.5pts

Q1 Market^{*2}

- Maintained growth

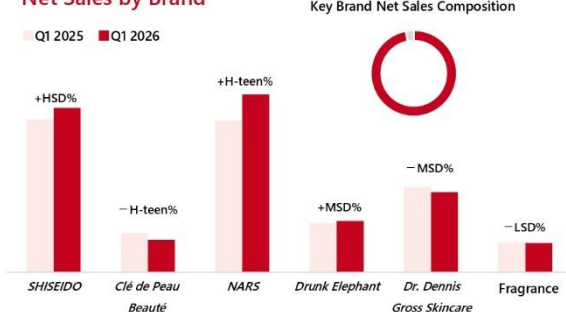
Q1 Consumer Purchases^{*3}

- - LSD%
- *Drunk Elephant*: YoY decline narrowed
- *SHISEIDO*: Vital Perfection and Suncare showed strong performance
- *NARS*: Returned to positive growth

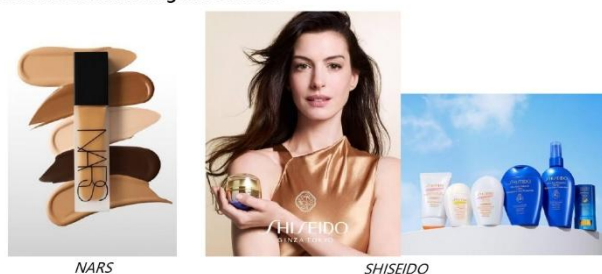
Q1 YTD Net Sales & Core Operating Profit

- *NARS*: Benefitted from new product launches
- Higher gross profit driven by sales growth
- Structural reform benefits contributed to profit, particularly through cost reductions in personnel and other expenses
- Enhanced marketing investments

Net Sales by Brand



^{*1} Net Sales YoY% means Net Sales YoY LfL% ^{*2} Prestige market ^{*3} Data coverage: U.S. and Canada

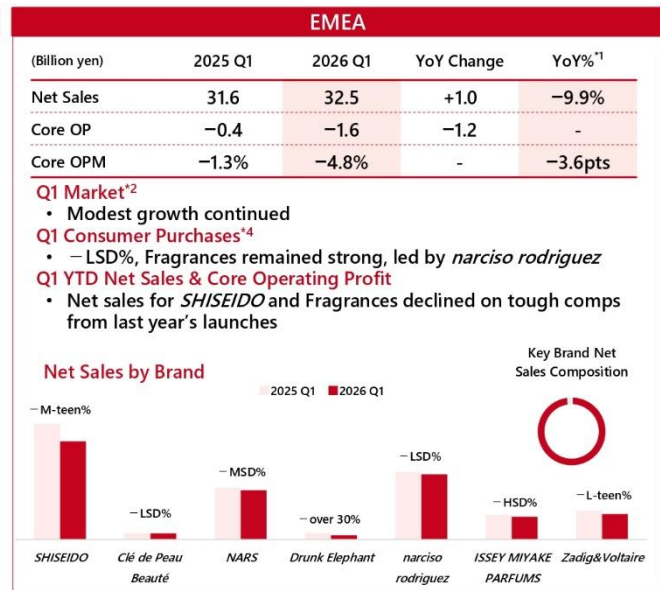
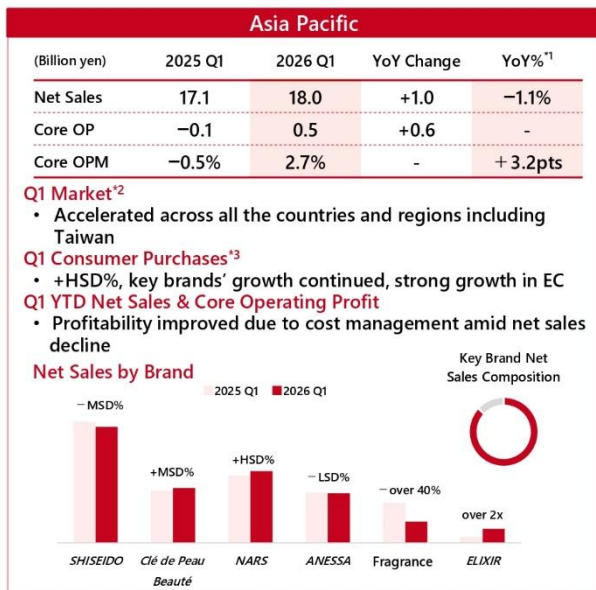


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Next, please take a look at page nine, covering the Americas region. Net sales increased 5%, marking a return to growth after a prolonged period of decline and representing a steady first step toward achieving full-year profitability. NARS and SHISEIDO were the key drivers of this growth. On the other hand, consumer purchases remained down in the low single digits. However, the pace of decline has narrowed compared with last year, showing signs of improvement. For Drunk Elephant, shipments returned to growth, while consumer purchases continued to decline. That said, the rate of decline has become moderated, and branding campaigns are beginning to show encouraging signs.

Regarding core operating profit, the structural reforms completed last year are clearly contributing to improved profitability. While sales stabilization remains a work in progress, clear signs of improvement emerged in Q1, and profitability also returned to positive territory. Fujiwara-san will later provide further details regarding our upcoming initiatives.

Asia Pacific: Strong Consumer Purchases and Share Gains
EMEA: Net Sales Declined amid Tough Comps; Recovery Expected from 2H



¹ Net Sales YoY% means Net Sales YoY LfL% ² Prestige market ³ Data coverage: 10 countries and regions in Asia and Oceania, including Taiwan, South Korea, and Thailand ⁴ Data coverage: France, UK, Germany, Italy and Spain 10

Next, please turn to page 10. In Asia Pacific, Taiwan, where market contraction had continued, returned to positive growth, and all countries and regions achieved positive growth. Against this backdrop, our consumer purchases grew in the high single digits, and we continue to expand market share. By brand, ELIXIR and NARS, which continue to expand through new store openings, performed strongly. By channel, e-commerce also delivered robust growth. Core operating profit increased by JPY600 million through disciplined cost management.

EMEA recorded declines in both sales and profit. In particular, fragrance saw a notable decline in shipments. This was mainly due to strong initial shipments of major new products in the previous year as well as reduced shipments to certain Middle Eastern markets. However, consumer purchases continued to maintain strong growth led by Zadig&Voltaire and Narciso Rodriguez.

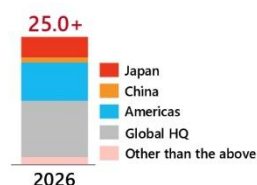
On the profit, Q1 profit declined due to planned upfront marketing investments aimed at future growth as well as a slower-than-expected launch of certain new products. We intend to steadily realize the returns from these investments mainly in H2 and aim to achieve full-year profit growth.

Progress on Global Cost Structure Transformation

- Structural reform benefits steadily materializing from Q1 2026, following the completion of all actions in 2025
- On track to deliver over ¥25.0 bn in benefits for the full year

(Billion yen)

		2026 Plan	
		Q1(results)	FY
COGS	<ul style="list-style-type: none"> • Selection and concentration of brands and SKUs, strategic price increases • Optimize factory production line efficiency, etc. 	2.0	7.0
Marketing Investments	<ul style="list-style-type: none"> • Optimize promotional costs, increase marketing ROI • Expand local production and improve operational efficiency of samples 	0.5	1.0
Personnel Expenses	<ul style="list-style-type: none"> • Optimize organization structure, improve productivity • Streamline corporate functions to enhance operational efficiency, etc. 	2.5	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. 	2.5	9.0
Total		7.5	25.0+










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Next, please have a look at page 11 for an update on the progress of our global cost reduction and structural reform initiatives. Following the completion of the major actions implemented last year, benefits have already begun to materialize with JPY7.5 billion in benefit for Q1. While the business environment continues to become increasingly uncertain, we view this as an opportunity to build a stronger management foundation. By focusing on controllable areas that are less affected by external factors and by thoroughly enforcing cost discipline and advancing structural reforms, we will steadily strengthen our earning power toward achieving the goals of our medium management plan.

This will conclude my part.

Restoring Growth with Clear Issue Identification and Agile Resource Allocation

Brands	Q1 YoY Net Sales	Q1 Performance Review	Key Actions from Q2 Onwards
	-4%	<ul style="list-style-type: none"> Japan and APAC: Successful LISA promotion EMEA: Decline due to tough comps from last year's new launches TR: Retailer changes impacted sales 	<ul style="list-style-type: none"> Global: Focus investments on high-performance creams and Ultimune Americas: Focus on strong-performing EC platforms
	-2%	<ul style="list-style-type: none"> Japan: Decline in inbound and tough comps from last year's pre-hike demand in local China & TR: Sustained solid momentum Americas: Impacted by department store bankruptcies 	<ul style="list-style-type: none"> Japan: Refocus on loyal customer base China & TR: Accelerate capturing affluent consumers via hero products (e.g., Key Radiance Care)
	+7%	<ul style="list-style-type: none"> Americas: Sales supported by new foundation initial shipments; underperformance at a key retailer 	<ul style="list-style-type: none"> Americas: Maximize the sales of new foundation and re-promote hero products, and focus investments on strong-performing channels
	+4%	<ul style="list-style-type: none"> Japan: High growth driven by hero products APAC: Over 2x growth, aided by open-sell expansion China & TR: Maintained positive growth 	<ul style="list-style-type: none"> Japan: Maintain lotions/emulsions momentum and strengthen cross-selling APAC: Further expand open-sell
	-17%	<ul style="list-style-type: none"> China: Campaign timing shifts, price distortion and inventory adjustments driven by inflows from unauthorized channels Japan: Double-digit growth, aided by new product initial shipments 	<ul style="list-style-type: none"> China: Strengthen distributor management, optimize wholesale pricing and retailer inventory, diversify portfolio to reduce product dependency, and build a second growth pillar Japan: Scale proven winners
	-9%	<ul style="list-style-type: none"> APAC: Inventory adjustments and intensifying competition Middle East: Traffic and shipment drops due to geopolitical risks EMEA: Tough comps from last year's new product initial shipments from Zadig&Voltaire 	<ul style="list-style-type: none"> APAC: Optimal investment reallocation based on traffic EMEA: Continuous brand exposure to accelerate momentum of strong new products Americas, EMEA: Max Mara launch as a 2H growth driver
	-6%	<ul style="list-style-type: none"> Americas: Strong performance of new products (e.g., lip tints), amid a continued severe competitive environment 	<ul style="list-style-type: none"> Americas: Strengthen authority as a clinical brand, and return to growth via 360-degree Peels activations and new products

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Fujiwara: From here, I will review the key initiatives undertaken in Q1. Please turn to page 13. This slide breaks down the factors behind the recent sales decline by brand into onetime factors and structural challenges, clearly outlining our countermeasures for each item.

We have broadly organized this into three areas.

First is the area that is delivering strong results like ELIXIR. We will concentrate investments in these areas and further accelerate growth.

Second is the area affected by temporary factors such as timing difference and rebound from previous year's performance. We will steadily recover this area from Q2 onwards.

Third is the area with structural challenges driven from pricing and distribution such as ANESSA. We will prioritize to rectify the structure rather than focusing on short-term sales.

In an environment where market changes have become the norm, rather than treating all issues uniformly, we will clearly differentiate priorities between investment and corrective actions according to the nature of each challenge. By concentrating resources on the areas where we are succeeding and taking agile action in areas facing challenges, we will increase the overall certainty of growth. Through this approach, we will advance both recovery and structural reform simultaneously, enhancing both solid growth and capital efficiency from Q2 onward.

Americas: Roadmap to Full-Year Profitability



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Next, Americas operations, this Q1 marked a planned start towards our goal of achieving the full-year profitability. The left shows a summary of the structural reforms implemented in July of last year. As a result of the comprehensive review of the organization, costs, and procurement, we achieved an annualized cost reduction of JPY15 billion, significantly improving the profit and loss structure of Americas operations. Given that basis, we are transitioning to a phase of balancing growth and profitability, focusing on selective investment in key areas and maximizing results.

Specifically looking at a combination of brands and channels, only a few combinations generate the most of the sales and profit. Hence, we focus on them. As part of our channel structural transformation, we are accelerating our shift towards e-commerce, primarily through the high-growth Amazon. Going forward, we will concentrate resources on these winning areas to improve the precision and the speed of execution. We will extend the focus on winning area strategy, which demonstrated a successful turnaround from a loss-making structure in EMEA to the Americas. While promoting cost synergies across EMEA and the Americas, we will ensure full-year profitability.

In addition, we are working to improve our organizational strength centered on the structural strengthening our sales capabilities. With fixed costs now under control, sales expansion directly translates to improved profitability, making the strengthening sales capabilities the most important driver. Therefore, we intend to securely capture the growth by enhancing the organizational execution capabilities while simultaneously achieving continuous profit improvement.

Americas: Two Key Brands Drove Strong Growth

NARS

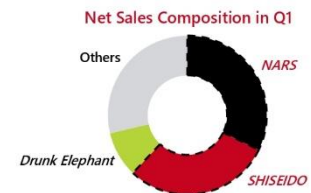


- Q1 Net Sales: +H-teen%
 - Strong growth at ULTA
 - Natural Matte Longwear Foundation (NMLF) launched at Sephora in late February and ULTA at end of March, with initial shipments contributing significantly
- Initiatives for Q2 onwards
 - Expanding distribution of NMLF
 - Strengthening strategic partnerships with key retailers
 - Driving higher unit pricing through strong cross-selling with hero products

SHISEIDO
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- Q1 Net Sales: +HSD% driven by growth across key product lines
 - Vital Perfection: Expansion of open-sell channels
 - Benefiance: Brightening Serum & Cream
 - Suncare: UV-protecting makeup and Mineral Clear
- Initiatives for Q2 onwards
 - Accelerating growth through innovation in leading lines and increased marketing investments
 - Strengthening strategic partnerships with key retailers



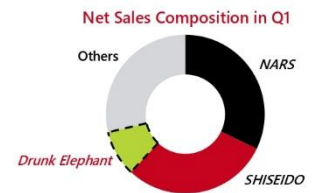
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The two brands, NARS and Shiseido, which account for approximately 60% of Americas sales, performed well in shipments during Q1, driving growth across the Americas.

NARS achieved growth in the high teens. In addition to the strong performance at ULTA, our Natural Matte Longwear Foundation, the major new product, also contributed to improved sellout.

Shiseido grew across all product lines, achieving high single-digit revenue growth. The expansion of Vital Perfection at ULTA and new products in Benefiance contributed to this growth, and the sun care segment, which showed weak momentum last year, has regained its strength. We will continue to use these two brands as pillars of growth, achieving both high-quality growth and improved profitability.

Americas: *Drunk Elephant* Turnaround Progress



Q1 Achievements

- **Channel diversification and digital strategies**
 - Solid growth on Amazon and signs of recovery at ULTA
 - Strong social media buzz driven by creator campaigns
 - High customer engagement in brand.com promotions



Remaining Challenges and Key Actions from Q2 Onwards

- **Conversion from awareness to purchase**
 - Boost conversion via retailer-led frequent promotions
 - Enhance visual merchandising and optimize assortment by channel
 - Boost buzz with 2H novelties & improve efficiency via targeted marketing
 - Revamp key online pages for new products

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Regarding Drunk Elephant, we witnessed certain achievements throughout Q1, while also clarifying the remaining challenges for renewed growth. Sales have turned positive on a shipment basis, and leading indicators such as awareness and engagement of new communications are improving across the brands as a whole. However, customer purchases remain negative, and the performance gap by channel became evident. Specifically, growth accelerating on Amazon and at ULTA and strong responses are being seen during the promotion campaign, while some retailers are facing weak conversion rates.

Based on our analysis on what works and what doesn't, we are narrowing down the activities we will focus on from Q2 onwards.

First, in channels and that are performing well, we will aim to maximize sales by combining key annual promotions and product re-launches, as well as the new products in Q2. For retailers, where challenges remain, we will strengthen measures that directly lead from the awareness to purchase, such as improving the way products are displayed in stores and online, expanding word-of-mouth marketing, and making product descriptions clearer and simpler in order to improve the conversion rate. Going forward, by increasing the precision and speed of execution, we will reliably restore customer purchases and return to a growth trajectory.

Optimizing the Global Production Structure: Decision to Close the Hsinchu Factory in Taiwan

- **Schedule and financial impact**

- Production end scheduled for Q1 2027; factory closure for 2H 2027
- Structural reform expenses: Approx. ¥3.5 bn (2026: approx. ¥2.0 bn, 2027: approx. ¥1.5 bn)
- Expected post-closure fixed cost savings: Approx. ¥1.0 bn per year (personnel expenses and depreciation, etc.)

- **Maximizing capital efficiency**

- Optimizing the global production structure in response to demand fluctuations
- Transfer production to domestic factories to drive higher utilization and improved ROI

- **Pursuing an optimal supply network structure**

- Optimizing the supply network to improve efficiency while maintaining demand responsiveness

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Next, on page 17, as part of optimizing our global production structure, we have decided to close our Hsinchu factory in Taiwan. Production will end in Q1 of 2027, and the factory is scheduled to close in H2 of 2027. In terms of financial impact, structural reform costs will amount to approximately JPY3.5 billion for 2026 and 2027 combined, of which approximately JPY2 billion will be recorded in 2026. The majority of this will be non-cash. Furthermore, we expect an annual reduction in fixed costs of about JPY1 billion after the closure.

This decision aims to optimize our global production system in light of demand fluctuations and maximize capital efficiency. By consolidating production at the domestic factory, we will strongly promote improvements of utilization rates and investment efficiency.

We will pursue company-wide optimization while ensuring our ability to respond to demand fluctuation arising from market changes.

Japan-China Tensions: Aim to Mitigate Impact Through Active Management; Boosting Profitability Under the New Inbound Structure



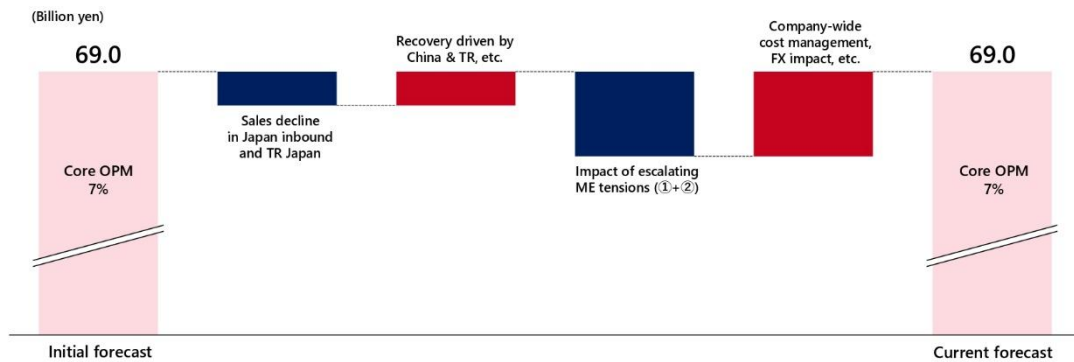
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Lastly, I would like to explain the impact of geopolitical risks on our business performance as well as our full-year outlook. Regarding the prolonged tensions in Japan-China relations, we believe the impact on our business remains within a controllable range at this point. In Q1, we saw a clear impact on Japan inbound demand and travel retail Japan. However, overall performance remained within our expected range.

What is important is that our business structure has evolved to become more resilient to changes in the external environment. Through growth in China and travel retail, as well as diversification of our business portfolio across regions, we have reduced our dependence on profits from any single market and are able to respond flexibly to shifts in demand. In addition, within our Japan business, structural reforms have lowered the breakeven point, enabling us to secure stable profitability without relying heavily on inbound demand.

Full-Year Forecast Unchanged: Intensifying Actions to Contain Risk Amid Uncertainty

Impact of escalating Middle East (ME) tensions	Key mitigation actions
<ul style="list-style-type: none"> ● Reflected in full-year forecast ① Decline in sales in ME ② Rising raw material (COGS) and logistics costs (SG&A) 	<ul style="list-style-type: none"> ● Optimize production <ul style="list-style-type: none"> ➢ By brand and SKU ➢ Promotional materials ● Secure maximum raw materials <ul style="list-style-type: none"> ➢ Shift to alternative materials ➢ Expand supplier sources ● Reallocate resources to drive sales <ul style="list-style-type: none"> ➢ Agile marketing execution aligned with demand trends ➢ Strategically utilize existing inventory ● Assess price increase opportunities ● Company-wide cost management
<ul style="list-style-type: none"> ● Risks not reflected in full-year forecast ③ Sales loss from production cuts at Japan factories due to material shortages ④ COGS deterioration from lower factory utilization in Japan 	



Turning Headwinds into a Catalyst for Greater Resilience and Transformation

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As for our full-year outlook, we have revised downward our assumptions for growth in Japan inbound demand. At the same time, we intend to secure overall growth and profitability by steadily capturing growth opportunities in China, travel retail and other regions.

Lastly, I would like to explain our thinking regarding the full-year targets in light of the current business environment. First, we expect the decline in Japan inbound sales to be offset by accelerated growth in businesses such as China and travel retail. In addition, with regard to rising costs such as higher raw material and logistics expenses associated with heightened tensions in the Middle East, these factors have already been incorporated into our earnings forecast, and we intend to absorb them through disciplined cost management. Accordingly, we are maintaining our current full-year outlook at this time.

On the other hand, if tensions in the Middle East become further prolonged, there is a possibility that shortages in raw material procurement could lead to reduced production and lower sales. We will continue to closely monitor the situation and provide updates from Q2 onward as necessary.

While these additional risks are not currently reflected in our earnings forecast, we are already preparing for worst-case scenarios and are advancing operational optimizations across production, procurement, and sales. At the same time, we are advancing pricing initiatives and company-wide cost management efforts, and we'll make every effort to recover profitability toward achieving our full-year core operating profit margin target of 7%.

What is important here is that we do not view the current changes in the business environment merely as risks, but rather as an opportunity to transform into a stronger and more efficient business structure. Taking this opportunity, we will further accelerate optimization of our supply structure, portfolio, and investment allocation, ultimately evolving into a business with a stronger profit structure.

While uncertainty in the market environment remains extremely high, the management reforms we have advanced over the past several years have steadily strengthened our resilience. The fact that we were able to

respond swiftly and secure profits even amid sales declines in Q1 is clear evidence of this progress. We view this uncertainty as an opportunity to accelerate transformation and further enhance our competitiveness.

As for our remaining key challenges of growth momentum, our management is firmly committed to realizing both optimal resource allocation and accelerated growth. Built on a foundation of profitability and discipline, we are determined to complete the transition back to a sustainable growth trajectory.

That concludes my presentation.

Question & Answer

Oshima [M]: Now we move on to Q&A. Now I would like to start asking Kuwahara-san of JPMorgan to raise questions.

Kuwahara [Q]: JPMorgan, Kuwahara speaking. You talked about the geopolitical risks and so forth. It was very clear. Based on that, in terms of the geopolitical risks, I would like to deep-dive on that. In the short term, Japan-China relations was within your expectation. Within the numbers impact, JPY10 billion of sales impact and then the JPY3 billion of core operating profit impact, I believe that was an impact on Q1, right? I believe that, in Q1, you did not reach that level of the negative impact, so you were expecting some further growth. Normally, the inbound and the marginal profit ratio in the China travel retail is quite high, so that is kind of offsetting the negative impact of the tension. Can you clarify that? Then, the JPY5 billion impact was covered in the media, but is it true? For the regional impact, can you please explain which region you're looking at?

Hirofuji [A]: First of all, thank you for the question. In terms of Japan-China impact, as was explained in the last earnings report, we talked about the Q1 impact being already embedded of JPY10 billion for the revenue in Q1. Then, that Q1 result was within this range. That's the answer.

In Japan, sluggish inbound business was at originally expected a decline of over 30%, but as you can see on the slide, a high 20% impact only. Then, the travel retail impact was also recognized in Japan business, but we tried to capture the other regional inbound customers sales. In Hainan and other regions, some changes in the travelers, and there were some positive impacts on the travel retail from other regions. For the impact to the China-Japan tensions, it was within our expectations. Going forward, at least for a short period of time, we are not able to see a big recovery from the Chinese travelers, but on the other hand, in Mainland China, as well as the Hainan region, we may be able to be compensated in terms of the sales as well as the profit. Given that background, the overall sales outlook remains the same, unchanged. However, Japan sales forecast was revised down to a low single-digit growth, and then China travel retail originally anticipated negative growth, but now it improved to a low single-digit percentage growth, not negative.

Now, the impact on the Middle East, some coverage by media, I would like to clarify that. At the end of our slides, there are a few topics. On the left, you can see the business affected by the Middle East impact, and then there are some raw material impacts as well as the net sales reduction of the Middle East which is estimated to be approximately JPY 5 billion. Overall, we will manage for that. Of course, the FX impact has to be taken there, and then we believe that the 7% is unchanged.

Kuwahara [Q]: Thank you for that. Number one and number two are the reduction in the decline in sales in ME, but the JPY5 billion, is that the EMEA region, or are there any impacts in other regions as well? Number three and number four are that risks are not reflected in the full-year forecast, number three and number four. What is the level of the probability that the risks will be materialized? I just want to understand your assessment.

Hirofuji [A]: To your first question, the net sales reduction in the Middle East region is limited to the Middle East, not, of course, centered around the EMEA region overall. However, the overall amount affecting EMEA sales is minimal, so this JPY5 billion impact we said was coming from number two, which is rising raw material and logistics costs.

Fujiwara [A]: Number three, that risk is not reflected in our full-year forecast, which is the sales loss from the production cuts in the factories due to material shortage. This is uncertain, so it is rather difficult for us to

assess the impact at the moment. That is the reason why we are not incorporating these risks in our full-year guidance. Of course, it is too late if those risks materialize to be embedded in our forecast. Therefore, we are already making internal preparations to take immediate action as soon as these risks become more visible or materialize.

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

Matthew [Q]*: Congratulations. It's a very strong quarter. I had high expectations, but you exceeded them, so well done. Could you tell us a little bit more about the potential bottlenecks of Middle East impact? Which are the areas which you are most concerned about?

Hirofuji [A]*: Thank you, Oliver. As shown in the last slide, the currently identifiable impact from the Middle East situation mainly relates to higher raw material costs and increased logistics expenses, which we have highlighted and quantified as JPY5 billion at this stage. We estimate this impact to be absorbed company-wide. For cost management, as you highlighted, I think we are more confident with our capability as a company to manage our bottom line, selective price increases in the future, and agile resource allocations, so we are not lowering our full-year guidance at this point as a result, as mentioned in our earlier Q&A. However, it is clear that there are some increased cost pressures, which we intend to be, with agility, properly managing, and we remain committed to our future forecast.

Matthew [Q]*: Maybe my question was more like how much visibility do you have? Can you see out, three months or six months? In terms of that final risk, you talked about if you were unable to produce products, then you couldn't sell them, right? For that risk, what kind of time line visibility do you have?

Hirofuji [A]*: To be honest, I think it is extremely, at this point, uncertain at this stage with regards to the number three and number four risks that we have highlighted in this stage. Therefore, we will continue to monitor the developments carefully. We have, of course, internally quantified and provided internally some approximations and actions that we can do to mitigate those, but at this stage, it is fluctuating quite significantly, quite drastically and very frequently. Hence, I think it is important that we monitor the developments carefully and take the necessary actions accordingly as listed in this last slide on the right-hand side in the top area. These actions are something that we need to be taking in advance to well manage our bottom-line profitability toward the year-end. I hope this answers your question.

Oshima [M]: Miyazaki-san from Goldman Sachs, please.

Miyazaki [Q]: Miyazaki speaking from Goldman Sachs. I want to talk about the China and travel retail business. Actually, the sales increase rate was minus 1.4%. On the other hand, the profits were up. There was some FX impact, of course, but margin itself was growing. In other words, the actual amount of profit was increasing, in my understanding. Still, the sales momentum is still weak. What caused the profitability improvement? That is my question for China, Mainland China, online or offline business, or travel retail. Can you answer the question?

Hirofuji [A]: Thank you. First of all, profitability improvement by 2.2 points, that was a partial reversal of the allowance, temporary allowance, so it's not 100% coming from the positive, but still, there are some brands, some growing and some still-challenging brands. There are some mixed results. For example, NARS went well, dramatically, so the sources of profit coming from NARS type of brands are very much contributing to the overall profits of the China business. Overall, agility was very much focused by the China regional management, so that also yielded results.

Especially for travel retail, let me add a few things. In travel retail, the sell-out negative impact was narrowing down, so the Q4 was 20% negative, but in Q1, this time, in the mid-teens, it was improved. The negative

impact was mid-teens, so quite a big improvement in travel retail. Not just travel retail, but Mainland China was still negative, quite large, but Hainan Island was very positive, so it turned to positive. That is another feature. In non-traveler, we are making the intentional control. In travel retail overall, travel retail region, overall demand from the individual customers is growing.

Miyazaki [Q]: In that case, travel retail in Hainan went well, but the hypothesis is that the non-traveler is excluded, so you focus on the travelers, and then the actual performance in Hainan worked well. If that understanding is correct, from Q2 onwards, we continue to see a quite high profitability compared to the previous year. Can we expect Q2 onwards?

Hirofuji [A]: Well, we now shift our business focusing on the travelers, so in terms of our initiatives, yes, your understanding is correct. Overall, our business is now becoming healthier. However, since we do not disclose quarterly profitability by region, and considering there are timing differences each quarter, please do not assume this specific margin will remain constant. We are trying to secure the profits and trying to make sure that we manage all the profits here every quarter.

Oshima [M]: Next, Miyake-san from Morgan Stanley.

Miyake [Q]: This is Miyake from Morgan Stanley. I want to ask about Drunk Elephant. I want to hear and elaborate on Drunk Elephant. You mentioned about the structural items. Depending on the distribution channels, some are going well, and some have challenges. A distribution channel like Amazon that's going well, when you do a promotion, you said the sales do boost up. I am concerned about whether this could lead to a situation similar to what happened in China in the past, where there was an over-reliance on promotions. I wanted to check that. Does that mean that Drunk Elephant is more attractive, or is it a promotion-led boost, because then it will be promotion first? I wanted to think about what you think about this brand.

You mentioned about the winning distribution channel. How do you see this? Within this brand, what is the distribution channel split within this brand, if you can share with me?

Fujiwara [A]: For Drunk Elephant, first of all, as for brand campaigns, we have a new campaign to express the value of the brand so that we can heighten the awareness of the brand and elevate the engagement of the consumers. At the timing of promotion, the conversion rate goes up. For the promotion itself, of course, there will be higher traffic due to the promotion. In that sense, those are the new consumers that we do want to capture, but to know that there are consumers coming into it through these promotions means that we have a good relationship with the retailer as well, so it is a positive note.

At the same time, to your point, is it promotion-driven, and are we going to resolve everything? That would not be the case. We will need to continue to elevate the brand value of Drunk Elephant and continue the communication. In H2, it's not written here, but it's maybe very near, we plan to renew the website page. We want to enhance the buzz around new products so that we can strengthen the brand equity going forward where the distribution channel is not working well. As for the sales distribution or allocation of the channel, we do not disclose the detail of the numbers, but it is not small. In other retailers, this conversion rate is good, but why, in this retailer, is the conversion rate not so high? Just like it says on the second point, enhanced visual merchandising and also optimized assortment by channel, maybe we need some kind of, for example, optimizing exclusive products or product lineup. These are the things that we need to enhance so that we can contribute to the growth of the brand. That would be it for myself.

Miyake [Q]: In Q1, the new promotion, the new communication, you've rolled out the new communication in Q1 and the sales in terms of the sellout momentum. What you had assumed at the end of last year, are you achieving what you had assumed end of last year through this campaign in Q1?

Fujiwara [A]: To be honest, it is not as high as what we had expected. The reason why is because there is a distribution channel that is working really well, and there is a distribution channel that is not going great. That's where we need to improve. The positive note from this is that we have been very thorough and detailed about these initiatives and have set a leading KPI that will lead to sales. We can clearly see what worked and what did not work. What works we will enhance, and what does not work we can improve, so we have a good PDCA cycle that is working, and we feel that it's a significant achievement.

Oshima [M]: Next, Bank of America, Ashley, the floor is yours.

Wallace [Q]*: This is Ashley Wallace from Bank of America. I was just hoping that you could please quantify the impact of the shipment timing and inventory adjustments on Q1 revenue and, therefore, help us understand what was underlying Q1 revenue growth, excluding these impacts? Do you already expect Q2 like-for-likes to turn positive?

Hirofuji [A]*: Thank you, Ashley, for joining. In Q1, there are some onetime timing shifts and inventory adjustments. However, we are not providing clear sort of quantifications of how much that impact exactly is. There are some specific Q1 negativities, specifically ANESSA China inventory adjustments. In Japan, for example, Clé de Peau, last year, we had some price increases. Hence, there are some rebound impacts here and some impacts in also even EMEA, where some new launches we had specifically last year. This year, the impact is smaller. Hence, these are all sort of onetime negative impacts. Hence, that is the reason that we feel that, from Q2 onwards, we should be able to turn positive. Excluding these onetime impacts, we are at a fairly steady sales momentum in Q1.

Oshima [M]: From Daiwa Securities, Hirozumi-san.

Hirozumi [Q]: This is Hirozumi from Daiwa. Similar to the previous question, sell-in and sell-out, I've been focusing on sell-in and sellout, and so I want to ask about that. In Q4, the consumer purchase, I think, was positive here and there. I think Americas was minus, but everywhere else. I felt like it was a positive for consumer sales. In Q1, the consumer sales, it seems like it's dropping here and there. Why? I want to know why it is dropping.

For example, looking at page seven, Japan's consumer purchases are negative low-to-mid single digits, but key brands are achieving double-digit growth. Some are growing, and some are declining, and for Americas, too, sell-in is really good, but the consumer sales is a minus. The consumer purchase, the sellout, I really put a lot of focus on this. When this sellout, the consumer purchase, goes negative, how do we interpret this?

Fujiwara [A]: I think it may be better to speak by market. For Japan, in the Japan consumer purchase, the biggest minus impact was the inbound, the negative from the inbound decline. That has pushed down the overall decline for Japan, so that would be the biggest point to mention. On the other hand, for local, if you look at local, the local consumer purchase, it's actually a slight positive.

Hirozumi [Q]: Yes, it says here ANESSA, SHISEIDO and ELIXIR sales growth contributed to growth in local. Okay, understood. What about Americas? You mentioned about shipment.

Fujiwara [A]: For example, for Drunk Elephant, as I have mentioned, the shipment is going up. There's advanced shipment, so the consumer purchase is still a negative, but the range of the minus is narrowing by quarter. As I have mentioned, there are areas that we're winning and that we're not doing well. Where it's

winning, it's actually coming back to flat, and where it's not, the consumer purchase is not coming back. That is the current situation. It's a mixed situation in the Americas.

The impact of Drunk Elephant has overall in the Americas pushed down the consumer purchase to a low single-digit minus, but NARS and Shiseido, these two brands are not negative. Here, there is a difference by brand as well.

Hirozumi [Q]: This is my last question. On a consolidated basis, the sales, did you start a bit lower than expected? Would you say minus 3% was a lower-than-expected start?

Fujiwara [A]: Yes.

Hirozumi [Q]: By region, what would be the biggest impact? Is it Japan that gave you the biggest impact?

Fujiwara [A]: I would say there are two areas, or two things, to mention. Japan and EMEA were the two big areas that pushed down the sales. For Japan, as I have mentioned, the inbound demand has gone down. On top of that, ELIXIR, we had some return shrinkage initiative that we did, and there's a time lag for that. Hirofujisan has mentioned, for Clé de Peau Beauté last year, we had to rush to buy before the price increase for Clé de Peau Beauté. As a result, overall, it was a negative. For EMEA, this is just the timing gap of the shipment that's impacting or pushing down the numbers. I mentioned this in the last slide, but the Japan inbound will probably be a longer impact going forward, so that's what we foresee. For that, we should be able to offset and cover in China. For EMEA, it's due to the timing lag, so we should be able to recover from Q2 onwards. That will be the overall kind of story.

Hirozumi [Q]: That's why, for China, you have changed the number to upward revision. Thank you.

Oshima [M]: Next, SMBC Nikko, Yamanaka-san, the floor is yours.

Yamanaka [Q]: This is Yamanaka. I would like to ask about the nonrecurring items. There was a depreciation cost for the old factories, and there will be some potential cash-in for addressing the old factories.

Hirofujii [A]: Well, nonrecurring items, so Q1 results showed multiple initiatives. Our outlook was JPY10 billion for the nonrecurring, and part of that is coming from the closure of the Hsinchu, Taiwan factory closure, and the accelerated depreciation will be reflected in the P&L, so not just this year, but next year, we will recognize some temporary expenses. The majority will be on a non-cash basis. The rest of the factory-related initiatives, there are no further initiatives taken for the factory or production facilities.

Yamanaka [Q]: Thank you. In terms of the nonrecurring for the Americas, it's impairment risks that I am a bit worried about. In terms of the impairment testing, for the midterm growth opportunities and also the discount rate, can you please explain where the risks in the Americas are increasing? Are there any possible impairments?

Hirofujii [A]: Well, in terms of impairment in the Americas, there is nothing that we have in terms of the communication for the impairment of the Americas region, but as has been explained to you, there is very limited headroom in terms of the impairment test. We need to make sure the monitoring is in place.

In the Q1 results, the Americas was quite good, and there is a good sign of improvement in the profitability as well as earnings, but as was explained in the presentation, we need to monitor carefully about the sellout. This Q1 profit improvement has to be realized throughout the year. That means that we are not complacent. We need to continue to manage well about the Americas business. Americas actual performance is still on track, but we need to uplift this result going forward and try to reduce the risks.

Oshima [M]: Next, Kono-san.

Kono [Q]: In your presentation, profit cash, ROIC, you've been steering to focus on those items, and we're seeing the fruit of this. I understood that well. It's not just a cost reduction, but SKU and narrowing down the regions, I'm seeing the impact of these initiatives. The brand operation model itself, I felt like it's really showing some detailed outcome. From the CFO, Hirofuji-san has mentioned that you will be even higher, or Fujiwara-san, the CEO, has mentioned that we will elevate the brand value. From the management team, further higher or further elevation, where are you aiming for?

The reason why I ask this is because you've had the structural reform, and you were able to bring down the profit, but as a brand company, how do you grow? I believe that bringing up profit is also a different challenge from bringing back the value of a brand company. For you, are you still considering H2? I feel like it's all a bit mixed up right now, the phase that you have or you're going in parallel simultaneously, but for the external audience, how can we monitor that?

At the same time, you have advanced investment and some of the structural changes. How do you work on it and prioritize? If there is any color that you can add to it, please elaborate.

Fujiwara [A]: Thank you for your question. For structural reform, the structural reform that I was aiming for was to continue to grow the brand. We wanted to bring a company structure where we can continue to grow the brand. The P&L structure was what we really focused on, and that was most of the targets around structural reform. Of course, going forward, if the brand is strong, there is a sustainable growth, and sustainable cash will be generated, and that does not change.

Aiming for 2030, as Hirofuji-san has mentioned, a higher elevated place is the cost structure. We will need to continue to improve, and we will keep on working on the initiatives to improve. Therefore, for 2030, we will continue to secure the cost to grow the brand, but also, in other areas, we will be more efficient with the cost so that we can increase the profit. That's what we will continue to aim for. As we do this, where should we lay the KPI for brands? Maybe that's part of what you mentioned. One thing is, on a quarterly basis, what we do is the P&L structure. Versus the sales, if you look at it to the sales on a quarterly basis that we announced, I think that gives you kind of a metric of how we approach the brand. Have I answered your question?

Kono [Q]: The brand strategy, or what is a brand, it kind of leads to this question. It doesn't work, so the kind of sparkly, shiny Shiseido image that we have from the past, or is Shiseido kind of changing to something else? Because if you think about just the brand, brand is something that, even if it's expensive, I want to buy, or evolving ahead, because it's expensive, it's great quality, and it gives me joy. I think, when we think about brands, there are different stages, and so it's a bit abstract story I am talking about right now. To elevate the brand value, how do you prioritize or what do you look for? For a shareholder, I do understand there's a cost cutting and there will be investments, but as you go into the next phase, what kind of money do you need, and what kind of investment will there be needed to bear the fruit? If there are more details around that, that would be more appreciated.

Fujiwara [A]: As for the brand, this is also my personal opinion, but a brand is something that is irreplaceable—that is its true essence. That's where we can heighten the brand. I believe that that's the real core value of a brand. It cannot be replaced. A brand, how unique does it look, meaning that it does not have to be a mass-market brand. It has its own original value and the consumers see it. That's the real and true value of a brand as how I see it. We do not disclose the detailed numbers of the brands, et cetera, but the number of loyal users for the brand increases and these loyal users continue to use the brand for a longer period of time. That's really the very important metric, and the core of a brand is how I see a brand.

Oshima [M]: We have only one minute, but we can take one last question. Mizuho Securities, Miyasako-san, the floor is yours.

Miyasako [Q]: Miyasako speaking. I wondered about the Japan market, especially local business. You explained that ELIXIR or the new products launched in the last-minute Clé de Peau Beauté sales last year and rebound from that. The impact was quite large compared to our original expectation. Also, the market is not growing these days, and there will be some uncertainty in the Middle East tensions. In some noncore brands, you have to compete with the Korean brands as well or new brands, so you are losing some of the shares. I believe that, for local business, you are not changing your outlook this time, but can you give us the color on that?

Fujiwara [A]: Well, for the local market, we do not anticipate or expect a high growth in the local market, but a slight increase, not high increase. Of course, the impact from the Middle East tensions is not embedded in our expectation, but still, there should be some modest local growth. Japan has been making a lot of reforms, and the strong brand grows every year as time goes by, especially ELIXIR, because the brand value is fully communicated as time goes by, and then the ELIXIR business is growing accordingly.

Another good news is that, in the past two years, Shiseido has been realizing double-digit growth in the past two years, so this is quite good news. In the past, Clé de Peau Beauté led the local market a lot. However, now we see a lot of expectation from ELIXIR and Shiseido, so Japan's local brands are also growing. Unlike other regions, Japan has various brands, so depending on the market changes, we will change our portfolio and also the allocation of investment, and all the various brands are supporting our business. The Q1 result may concern you for the local business, but excluding the inbound, I'm not really worried about the local business. In other words, we have established a quite solid foundation to generate profit in the local market.

Hirofuji [A]: Well, inbound, on the full year, how much reduction have you implemented or expected? Inbound, the Q1 reduction was around a high 20% reduction for the inbound. We expect this trend to continue through the second quarter and beyond. But we do not quantify such negative impact by the market. Overall, Japan's overall growth rate is a low single digit. That is the answer.

Oshima [M]: Thank you very much. We would like to close the Q&A session. With this, we will be closing the presentation for today. After we close, there will be a survey, a questionnaire, on the screen. Please, we ask for your cooperation in answering the questionnaire.

Thank you very much for your participation today.

[END]

Document Notes

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