

Representative Director,
Chairman and CEO



President and COO



Message from the CEO and COO

In 2023, the 151st year since our founding, we will shift from “Defense” to “Offense”

Having celebrated our 150th anniversary in 2022, we marked a new start in January 2023 in preparation for the next 150 years by appointing Masahiko Uotani Chairman and CEO (previously President and CEO), and appointing Kentaro Fujiwara President and COO (previously China Region CEO). Over the next two years, the CEO and COO will work hand in hand to ensure smooth transition and strong company management.

WIN 2023: Achievements and Challenges

Since 2020, despite being significantly affected by COVID-19, we have gone through major reorganization of our business by promoting “selection and concentration” in our competitive strengths of skincare business. We have successfully built a strong earnings base through these structural reforms, such as improving profitability in the Americas and EMEA and raising the sales contribution ratio of skin beauty products to become over 70%. We have also managed to increase our cash position and reduce our liabilities through business divestitures, realizing a solid financial base that well prepares us for further accelerated growth for the future. Over the same period, we established three new factories with cutting-edge technologies, made active investments in IT and digital transformation, such as implementing a global standard ERP system, and improved our productivity level while preparing meticulously for the recovery in demand.

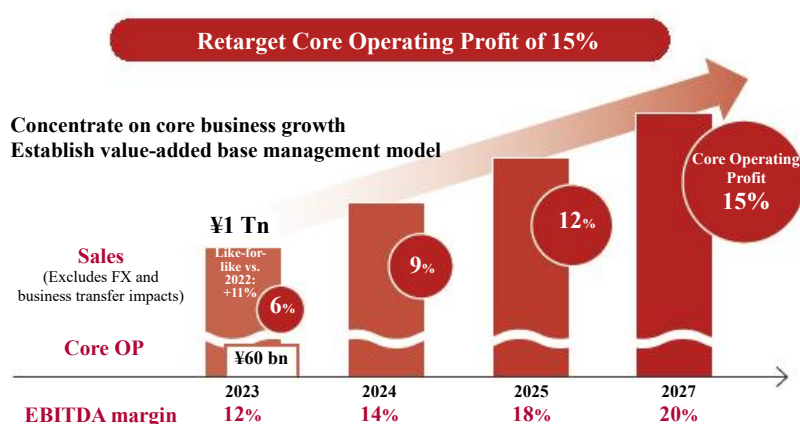
On the other hand, growth recovery in Japan business and China business has significantly lagged our initial expectations. Although the prolonged impact of COVID-19 particularly in the Japanese market is a major factor behind this, given that this situation has persisted for already three years, we are well aware that the pandemic impact would only be an excuse. It is time for us to face the reality of Japan to ensure we regain our growth momentum.

There is indeed signs of recovery, driven by our new value creation efforts through innovation. However, in order to ensure our sustainable corporate value growth, we will need to fundamentally reconsider our entire business, including our key brands, distribution strategy, organization and cost structures going forward. We wish to accelerate changes in our organizational culture as well that allows for each employee to be a change agent for improving our company, leading to initiatives to drive profitability.

Unwavering pursuit of our target; Core Operating Profit of 15%

Under these circumstances, we announced our medium-to-long-term strategy “SHIFT 2025 and Beyond” in February 2023. In order to “Be a Global Winner with Our Heritage,” we will continue to pursue our unwavering goal of achieving 15% core operating profit margin. We have designated the three years from 2023 to 2025 as a period for setting this course through active investment and structural transformation. As we embark upon a journey to realize a business structure with sustainable growth and high profitability, we will firstly place the highest priority on regaining growth momentum and re-building the earnings base in Japan, which is

our most important home market. Secondly, we will work to raise our market share and our business scale in the Chinese market, which is already large and is expected to grow steadily in the long term. At the same time, we will build a foundation for further expansion in the Americas, which is the world's largest beauty market, to make it our next growth pillar. We will also capture new market opportunities and enter into new markets to realize further global growth in the future.



Our vision is to become a company that integrates personal skin beauty and wellness to offer a holistic and extended beauty and wellness solution to our consumers. We will expand further our skincare category, leveraging our core strengths of high quality and safety, by adding the value proposition of skin beauty in other related domains such as makeup and fragrances. We will also pursue synergies with our existing portfolio by expanding into and developing the inner beauty category. At the same time, we will build a digital platform and use our consumer data that we have accumulated over the years to provide excitement and a beauty experience that are tailored for each and every customer.

In 2023, we will begin our journey to SHIFT from “Defense” to “Offense,” by invest actively, and achieving accelerated top-line growth. By strengthening investments in the key focused areas of brands, innovation and people, we are confident to generate a higher added value business with sustainable growth over the medium to long term.

Based on our mission of “BEAUTY INNOVATIONS FOR A BETTER WORLD,” we will seek to offer greater value to our customers and address each and every customers’ needs.

We would like to extend our sincere appreciation to our shareholders and investors for your continued support to achieve our goals.



Medium-Term Strategy
“SHIFT 2025 and Beyond”

- Shift for New Growth -

Considerations for the Formulation of the New Medium-Term Strategy

Shiseido formulated “SHIFT 2025 and Beyond,” a medium-term strategy centered on the next three years from 2023 to 2025.

With “SHIFT 2025 and Beyond,” we will shift from “Defense” to “Offense” and ensure further growth to “Be a Global Winner with Our Heritage”.

WIN 2023: Achievements

- **Selection and Concentration for profitability improvement**
- Brand portfolio reorganization through divestitures
- Improvement of Americas/EMEA profitability
- Skin beauty brands sales ratio expansion
- **DX acceleration and FOCUS^{*1} implementation**
- **Establishment of cutting-edge factories and logistics network**
- **Establishment of a strong financial base**

WIN 2023: Challenges to be addressed

- **Considerable delay in Japan Business growth recovery**
- Recovery from prolonged impact from Covid infection and mask wearing habits
- Revamp brands, executional capabilities, organizations, and PL Structure
- ➔ **Achieve core operating profit exceeding 50 billion yen and a healthy business structure by 2025 through fundamental reforms conducted during 2023-2025**
- **China economic recovery from Covid impact**
- **Global inflation and surge in material costs**
- **Geopolitical risks such as Ukraine etc.**

*1 FOCUS (First One Connected and Unified Shiseido): IT platform common to all global regions

Active investments in 3 areas

To shift towards “Offense” under this strategy, we will actively invest in brands, innovation, and people.

Investments in brands	In addition to global brands such as <i>SHISEIDO</i> and <i>Clé de Peau Beauté</i> , we will also focus on brands such as <i>ELIXIR</i> expanding in Asia, fragrance brands, Mens category, and strategically develop new brands. We will invest an accumulated 100 billion yen over three years from 2023 to 2025 additionally in marketing investments.
Investments in innovation	We will continue to invest in R&D at around 3% of sales, leveraging the R&D technology that is our strength to develop products that reflect the unique needs of consumers in each region. We will promote sustainable product development to help achieve a sustainable society.
Investments in people	To strengthen our global capabilities, we will actively promote talent transfer across regions, and open the Shiseido Future University for leadership development of our people.

Regional business strategy

Active investment to achieve continuous growth and shift to a highly profitable structure

Areas to be strengthened

- **Japan: Strengthen brands and organization. Rebuild earnings base by bringing back growth**
- **China: Expand brand portfolio and develop new areas**
- **Asia Pacific: Establish a business foundation in a promising market for the future**
- **Travel retail: Create unique value for travelers**
- **Americas: Build a foundation for growth as the next growth pillar**
- **EMEA: Achieve profitable growth after past structural reforms**

Toward further global growth

Other initiatives

Continuous strengthening of DX

With the goal of becoming the “Global No.1 Data-Driven Personal Skin Beauty & Wellness Company,” we will strengthen DX and focus on increasing the e-commerce sales ratio, enhancing digital advertising %, and developing the digital capabilities of our people.

Introducing FOCUS to enhance profitability and productivity

We will promote global FOCUS implementation, a Group-wide project that seeks to standardize data and optimize business processes by globally integrating systems across the Group, to enhance profitability and productivity.

Financial targets

	2022	2023 Plan	2025 Target	2027 Target
Net Sales	¥0.9 Tn ^{*2} (¥1.1 Tn)	¥1 Tn	➔ vs. 2022 ^{*2} CAGR +8%	vs. 2025 CAGR +6%
Core Operating Profit Margin	4.8%	6%	➔ 12%	15%
EBITDA Margin	9.6%	12%	➔ 18%	20%

*2 Excluding the impact of forex and business transfers (starting point for sales CAGR to 2025)

	2022	2025
Return on capital improvement	ROIC	5.2%
	ROE	6.0%
Cash generation capability improvement	Free Cash Flow	¥5.4 bn
	DSI	150 days (210 days ^{*4})
Sound financial position	Net D/E	0.05×
	Net D/EBITDA	0.31×

*3 Excluding cash-out related to M&A

*4 Excluding impacts from product supply due to business transfer and from impairment loss (estimation)

Accelerate Investments for Growth

By designating strategic investments, sustainable dividend increases, and appropriate financial leverage as the pillars of capital allocation, we will support the maximization of corporate value from the financial perspective.



Shiseido's Sustainability Strategy

Based on our mission of “BEAUTY INNOVATIONS FOR A BETTER WORLD,” we aim to enrich life with the power of beauty for people, society, and the planet toward 2030. This requires a society of abundant diversity filled with respect and empowerment, and an environment where people can enjoy sustainable beauty. Through our core beauty business, Shiseido not only strives to exert a positive impact with the power of beauty, but also works to resolve social and environmental issues. In the area of society, we are promoting diversity & inclusion to encourage mutual respect

and acceptance between people in different circumstances and environments. In the area of the environment, throughout the business we are executing initiatives aimed at addressing climate change and mitigating other environmental impacts, and at using sustainable resources. In 2022, the Company was included for the second consecutive year in the Dow Jones Sustainability World Index, a representative global stock index for sustainability investment, and the Dow Jones Sustainability Asia Pacific Index, which targets companies in the Asia Pacific region.



Global Acceleration of Initiatives to Reduce CO₂ Emissions

In terms of addressing climate change, Shiseido is working to achieve carbon neutrality by 2026*. In 2022, we set science-based targets for the reduction of CO₂ emissions throughout the value chain, and received certification from the SBTi. In terms of specific activities, we are accelerating improvements in energy efficiency and the switch to 100% renewable energy for electricity used by our own sites, including factories and offices in Japan and overseas. The measures to reduce CO₂

emissions at the Kakegawa factory have been highly regarded, and received the Director General Prize of Agency of Natural Resources and Energy at the Energy Conservation Grand Prize 2022 in the Energy Conservation Best Practices Category.

*At all business facilities of Shiseido, Scope 1+2



Solar panels of the Kakegawa factory



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION



Earned 1st Place in Overall Ranking of “100 Best Companies Where Women Actively Take Part”

At Shiseido, we use a variety of systems and supportive measures to encourage women to play active roles in the workplace. In addition to holding leadership training sessions for female employees and operating a mentoring program connecting female corporate officers with female employees, we are establishing a supportive workplace environment, such as by introducing work styles that allow a flexible combination of remote and office work. These internal initiatives to promote women’s empowerment were highly evaluated, and

earned 1st place in the overall ranking of the “100 Best Companies Where Women Actively Take Part” 2022 at the “Survey on Female Workers’ Workplace Opportunities” conducted by Nikkei Business Publications’ Nikkei Woman together with Nikkei Womenomics Project of the Nikkei Group. This is the fourth time taking 1st place in the ranking.



The “100 Best Companies Where Women Actively Take Part” 2022 ceremony



Global Launch of “LAVENDER RING MAKEUP & PHOTOS WITH SMILES”

Since 2017, Shiseido has been a participant in LAVENDER RING, which supports cancer survivors through the theme of “aiming to realize a society where people with cancer can continue living with a smile.” In 2022, Shiseido extended the MAKEUP & PHOTOS WITH SMILES project, which we have been leading in Japan, at the global level to include the four countries and regions of China, Singapore, Taiwan and Thailand. 107 cancer survivors and 120 volunteers among employees participated in this event. Having experienced the smiling faces of the survivors who took part, many cooperating patients’ associations and medical

institutions expressed the hope that this will become a regular event.



Makeup being applied for the Singapore event



Photography session at the event in China