

SHISEIDO

VISION 2020

Transforming Shiseido into a company that insists on winning by facing realities

December 17, 2014

Masahiko Uotani

Representative Director, President & CEO
Shiseido Company, Limited

Today's Agenda

SHISEIDO

Current Status Recap



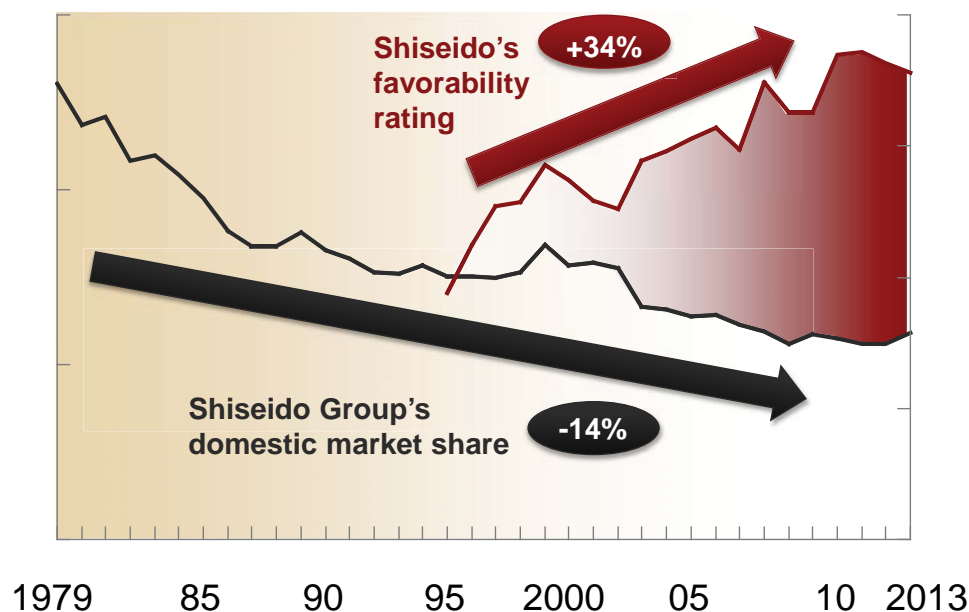
Targeted outcomes and specific action plans



Numerical targets

Favorability Rating of Company Is Decoupled from Domestic Market Share

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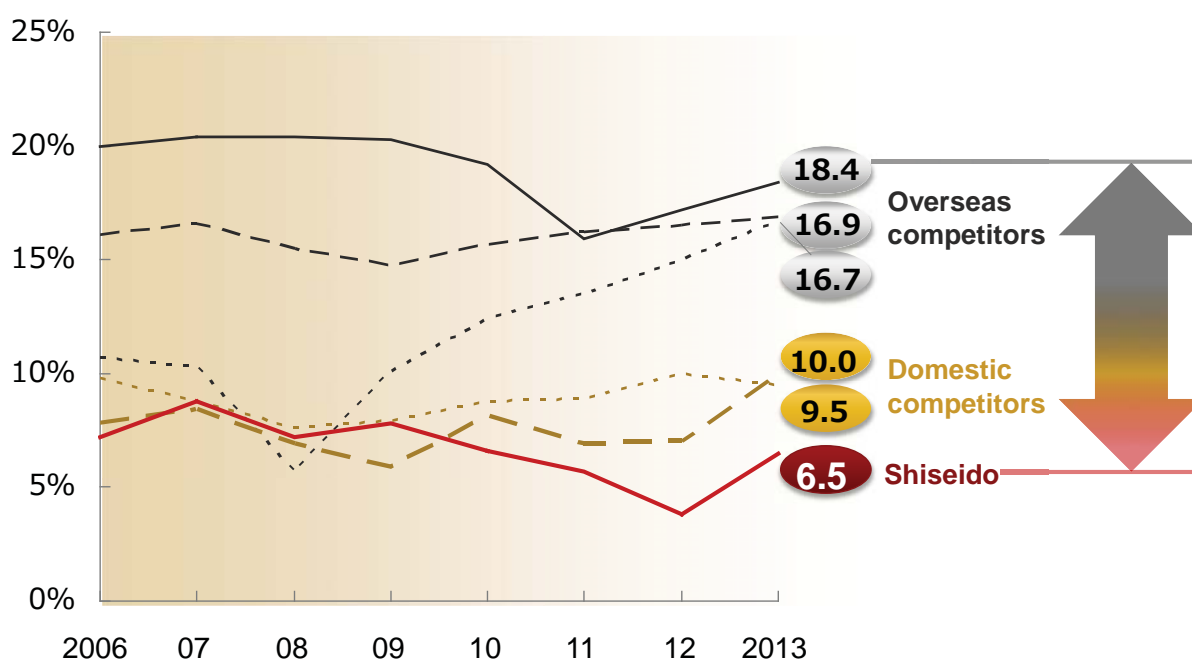


Favorability rating and market share to 2002 are based on Shiseido survey. Market share for April 2003 to March 2009 is based on INTAGE Inc. SLI – Diary data. For April 2009 to March 2013, market share is based on INTAGE Inc. SLI- web purchase comparison data (value basis) for general cosmetics (defined by Shiseido; comprising cosmetics, haircare, body care and others).

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Operating Profitability Far Below Competitors

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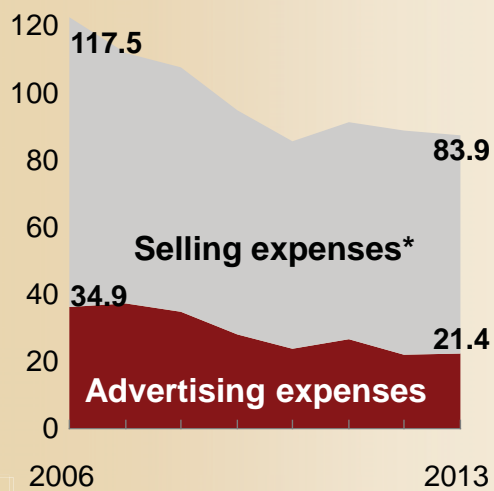
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Decline in Marketing Investment

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Japan

Billions of yen



Ratio to net sales

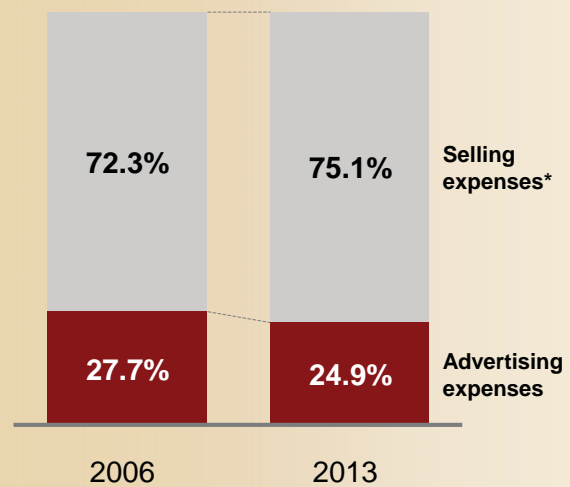
23.6

22.3

* Sample, rebate and promotional expenses

China

Composition of marketing investment



28.9

25.6

Figures for Japan are based on publicly disclosed data. Figures for China are based on actual results of two sales companies in China.

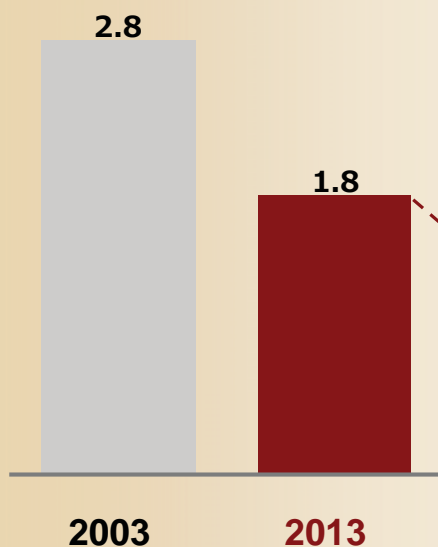
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Decline in R&D Investment

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R&D Expenses as a Percentage of Net Sales

%



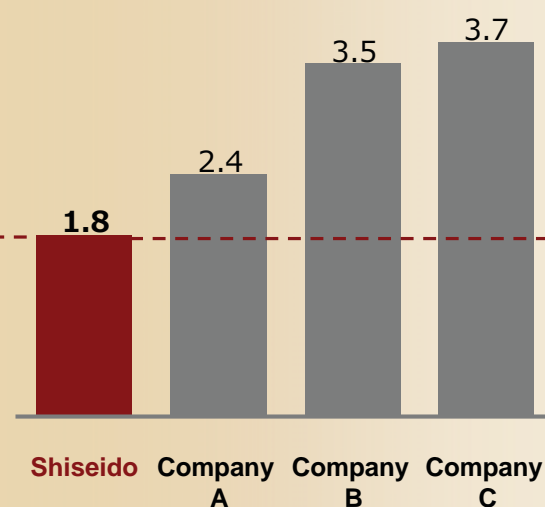
Billions of yen

17.6

13.5

Comparison with Other Companies

%



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Brands That Aren't Growing

- Poor customer orientation
- Too many brands
- Confusing brand portfolio
- Declining investment in marketing and R&D

Inefficient Organization

- Delayed decision-making and response to market changes
- Japan-centric organizational structure
- Barriers between head office and front-line sales
- Unclear allocation of responsibility
- Personnel system that lacks competition and does not nurture young employees
- High ratio of selling, administrative and personnel expenses

"There's an attitude that the head office is on top and the sales company is the underling. We're both in the same group, aren't we? I feel a real barrier between us."

"No one takes responsibility when we don't get results, including senior management. We don't even get an explanation."

"Now that I'm over 40, at last I'm in a managerial position. Everything up until now has been the waiting period of the seniority system."

Shiseido's Potential and Strengths



Targeted Outcomes and Specific Action Plans



Numerical targets



Current status recap

Mega Trends Changing Consumers' Lives

Globalization

Values and tastes are diversifying as people explore new territories

Urbanization

Social scenes and lifestyles have diversified

Information

Advances in information technology allow for easy access to information

Active Consumer

Connected through various networks, enjoy diversified roles, make their own choices

The Five Paradigm Shifts

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Shiseido-oriented View (Shiseido shall...)

Ideal

(present a uniform ideal)

Aspire

(create an image of being the authority on beauty to be aspired to)

All

(possess almighty power)

Fixed

(respond to general/average situations)

By

(be in a position to give instructions)

Consumer-oriented View (Consumers expect us to...)

Individual

(support the pursuit of unique beauty)

Inspire

(foster mutual trust based on honesty)

Role

(fulfill the required role)

Mixed

(support flexibility for different situations)

With

(maintain an equal relationship)

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Desired Outcomes and Roadmap

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2015-2017

Restructure the
Business Foundation

Enhance brands

Increase marketing
and R&D investment

Organizational/
personnel system
reform

Strengthen China,
Asia, TR* and EC
businesses

¥30-40 billion
Groupwide structural
reform

2018-2020

New Strategy to
Accelerate Growth

New brands/M&A

Continue
investment/
Achieve returns

Build global system

Establish business
in emerging
countries/new areas

Review and revise
business models

2020

"We create beauty,
we create wellness"

Become a company that is full of
energy for growth

Become a company that is a topic of
conversation around the world

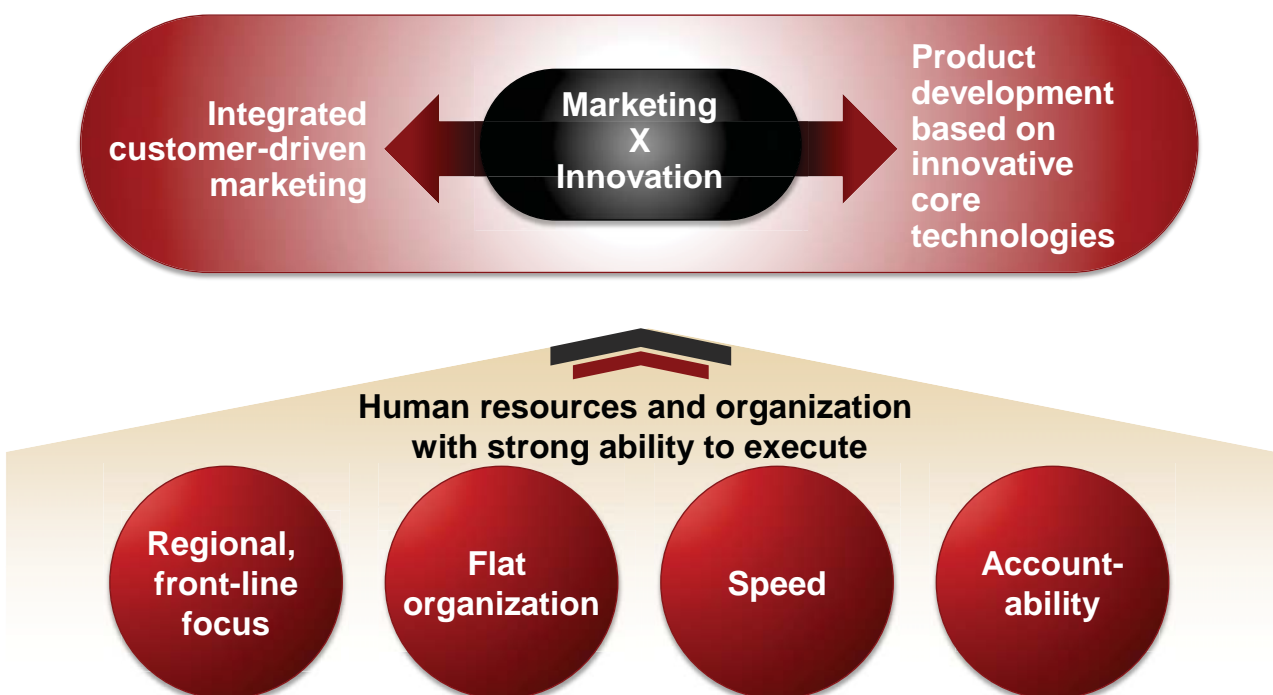
Become a company that young
people adore

Become a company that is brimming
with youthfulness

- Operating income over ¥100 billion
- ROE of 12% or more

* Travel Retail

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Brand Vector

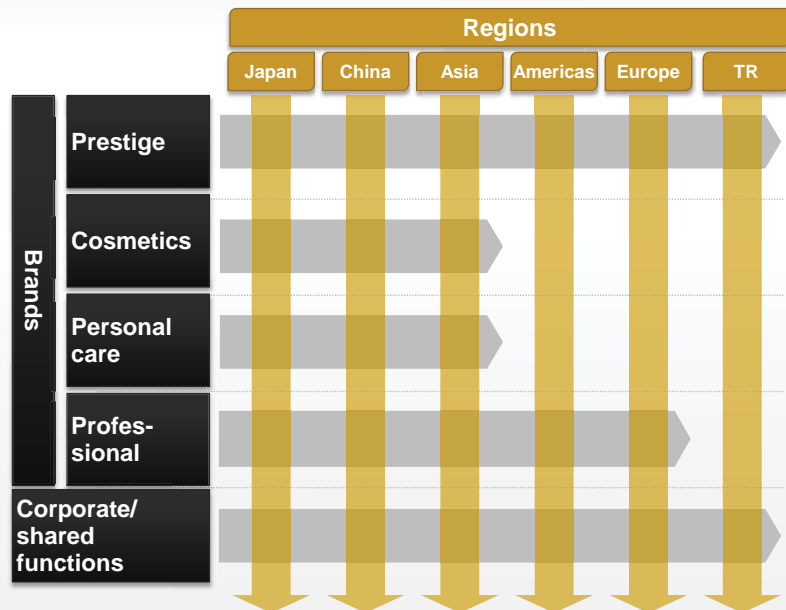
(4 brand businesses)



Region Vector

(6 regions)

New Organizational Matrix Concept (From April 2015)



Think Global, Act Local in Action



Local Subsidiary Functions

The front line responsible for expanding business by meeting the needs of local customers

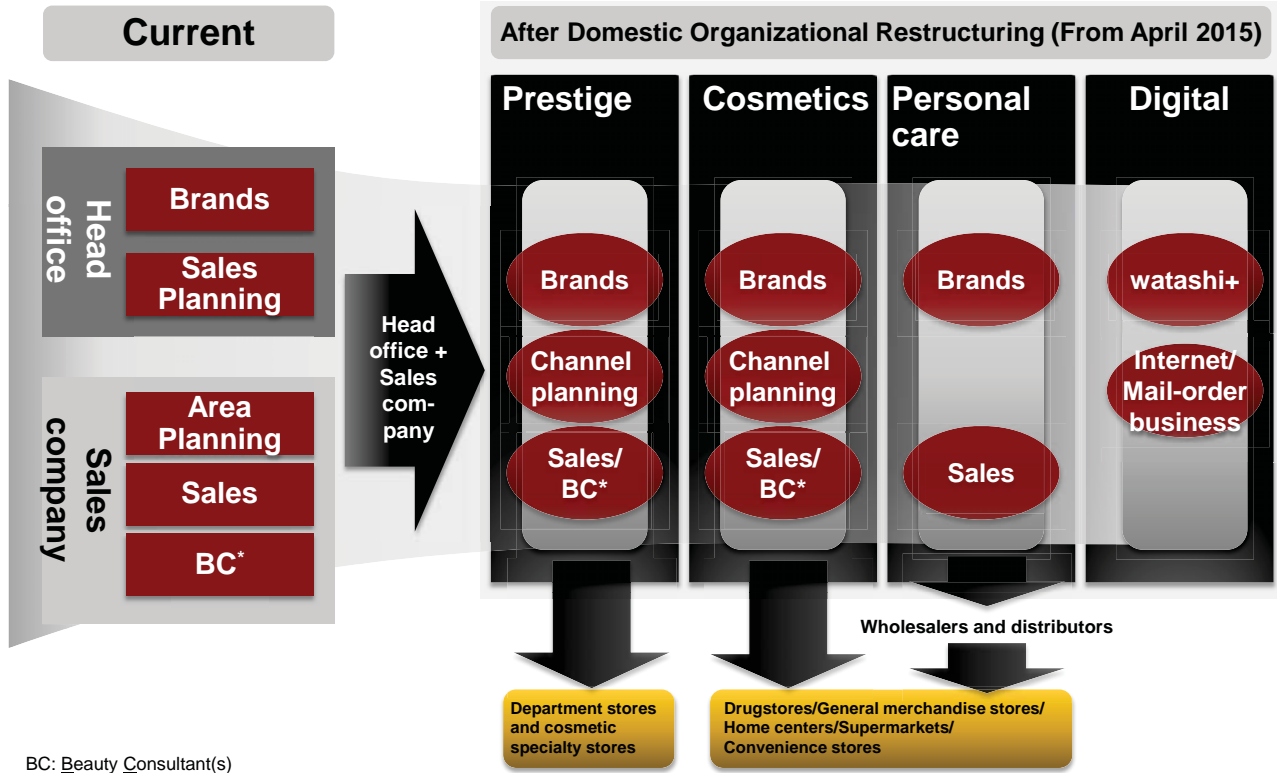
Regional Headquarters (RHQ) Functions

Strategic hubs that support locally rooted brand development

HQ Functions

Strategic support team for the Shiseido Group

CEO



A Personnel System That Stimulates and Rejuvenates the Organization



Personnel System Reform in Japan and China: Motivating Beauty Consultants (BC)

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- Transform into a group of beauty professionals
- Encourage recruiting of and promotion to regular employees
- Switch to an evaluation and position/compensation system that is linked to store sales
- Increase roles for young employees
- Expand scope of work and assign people to the jobs they are suited for
- System for career changes



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Fundamental Strategy for Prestige Business

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- Focus on building the global brand **SHISEIDO** and the *bareMinerals*, *CPB** and *NARS* brands
- Expand share in Japan, Americas and Europe through steady growth
- Drive growth in the high-growth markets of TR, China and Asia



* CPB: clé de peau BEAUTÉ

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- **Premium**
Mid-to-high price/high-value-added category:
Introduce new *ELIXIR* line for China and Asia in 2016
- **Entry**
Low-price/youth category:
Aggressively build *Za* brand mainly in Asia



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Create Strong Brands by Expanding and Changing the Nature of Marketing Investment

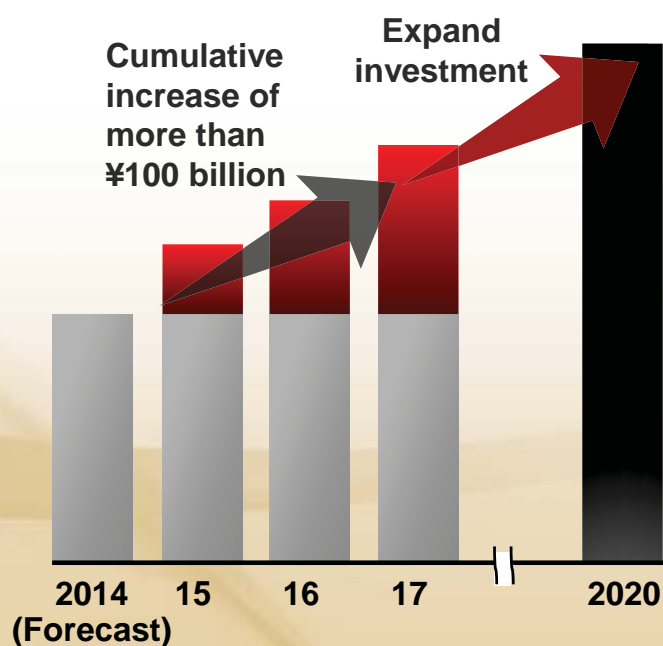
Select and focus on brands for investment

Shift to investment that focuses on customers

Expand marketing investment by a cumulative total of more than ¥100 billion over three years

Build brand value & loyalty

Marketing Investment



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Expand Core Brands/Lines and Achieve over ¥1 Trillion in Sales through Brand Investment

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2020

- Eliminate and consolidate small, unprofitable brands/lines (decrease of 28 brands)
- Redeploy brands/lines according to customer segmentation
- Strengthen product lifecycle management
- Brand M&A



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Expand R&D Investment to Innovate

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* Forecast for 2020

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Aggressively expand in the TR category, which is highly profitable and offers excellent growth potential

- Develop exclusive products
- Expand investment in sales counters
- Establish an independent organization to strengthen operations in Asia



Strengthen electronic commerce (EC)/digital category to reach young consumers

- Establish independent organizations for each region
- HQ to plan strategy
- Expand IT and marketing investment



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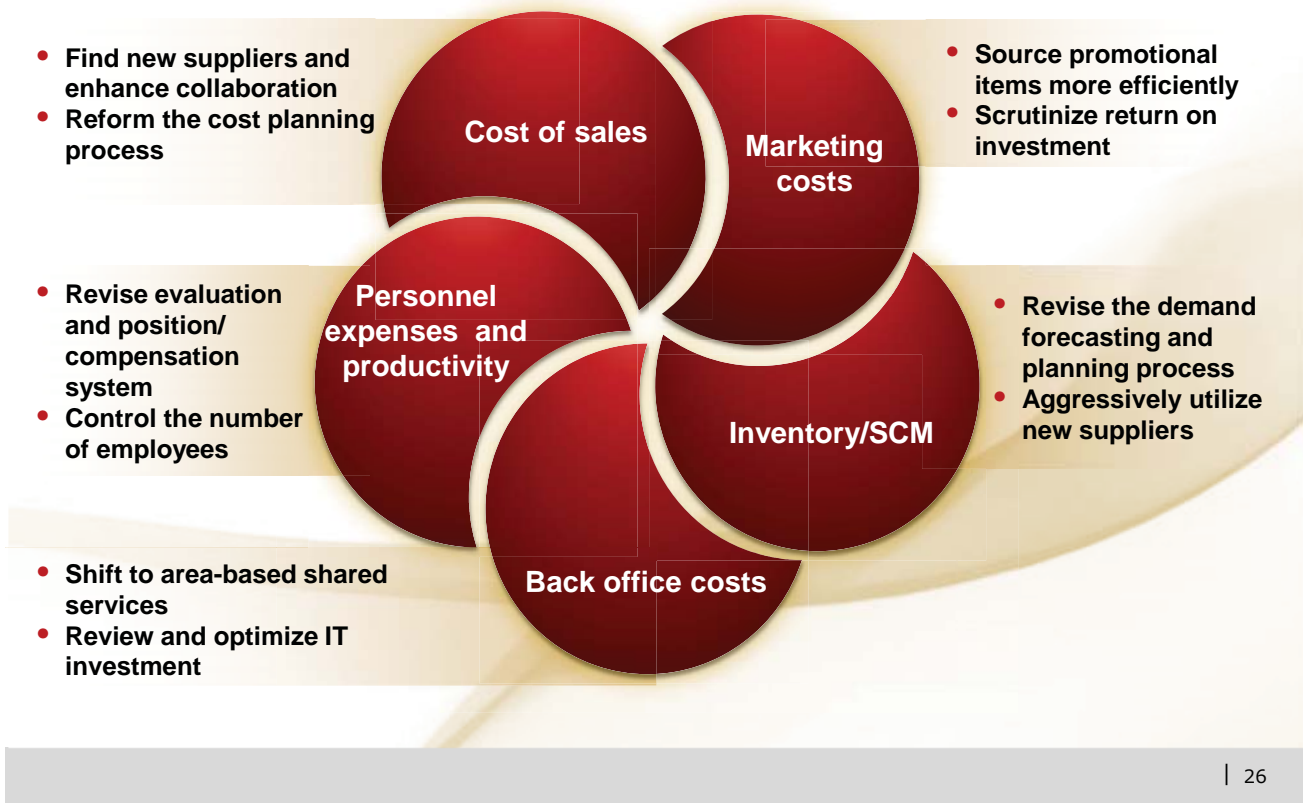
Restructure the China Business

Issues in China

- Slow response to market changes
- Overemphasis on sell in/increase in inventories
- Complex organization and processes
- Poor management of BC
- High cost structure
- Increasingly competitive environment



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Until Now

Began by reducing and streamlining

- Generated effects with a focus on Japan
- Made issues visible through reduction initiatives
- Directed cost improvements from the head office
- Optimized inventories and increase store sales by unifying activities in Japan

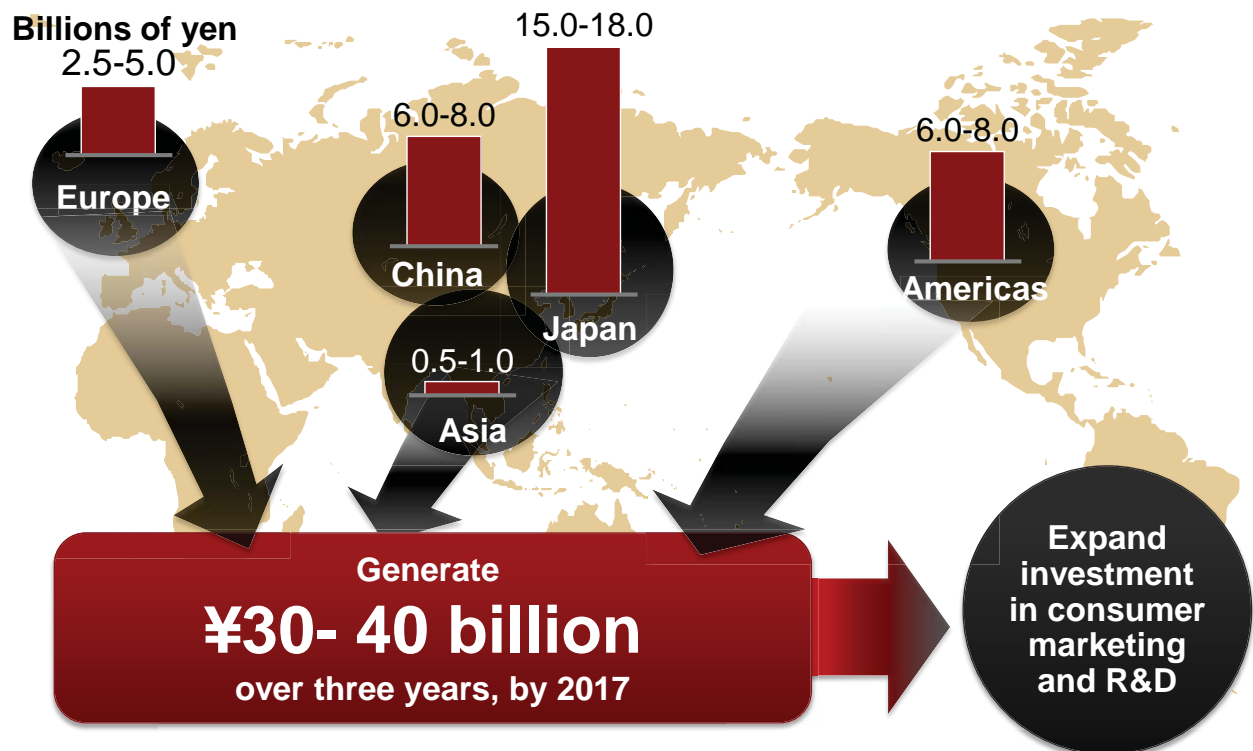
From Now

Reform that addresses core issues

- Global rollout in all categories (leverage economies of scale globally)
- Organizational and process reform (change the way of working)
- Reengineer the China business
- Corporate officers commit to results and make decisions on a weekly and monthly basis.

Generate Investment Resources to Build a Foundation for Growth

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Today's Agenda

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Numerical Targets



Current
status
recap

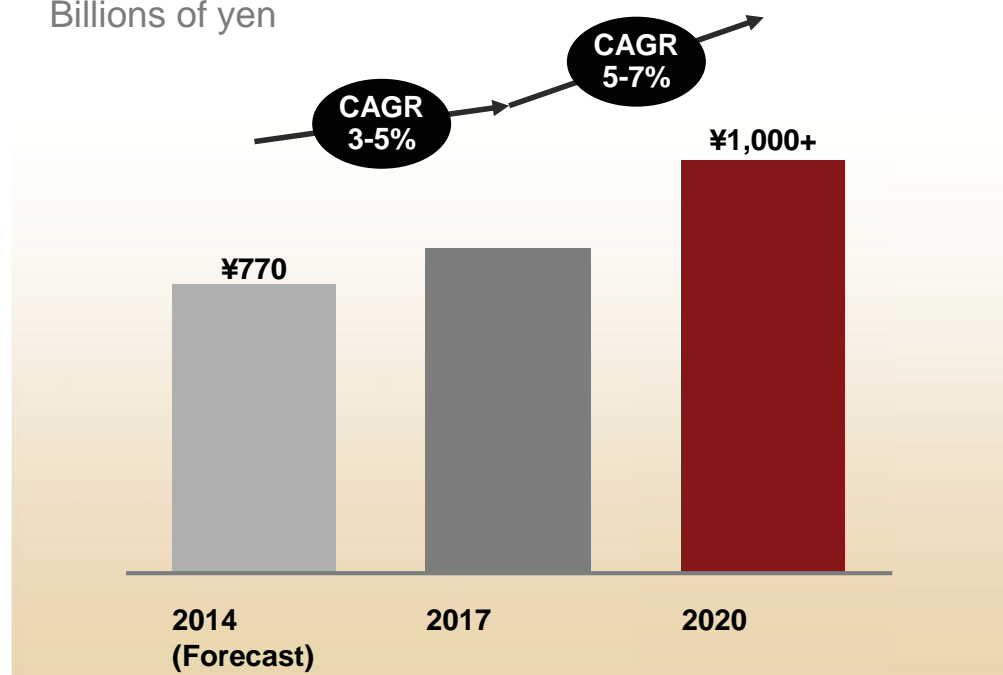


Targeted
outcomes
and
specific
action
plans

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Net Sales

Billions of yen

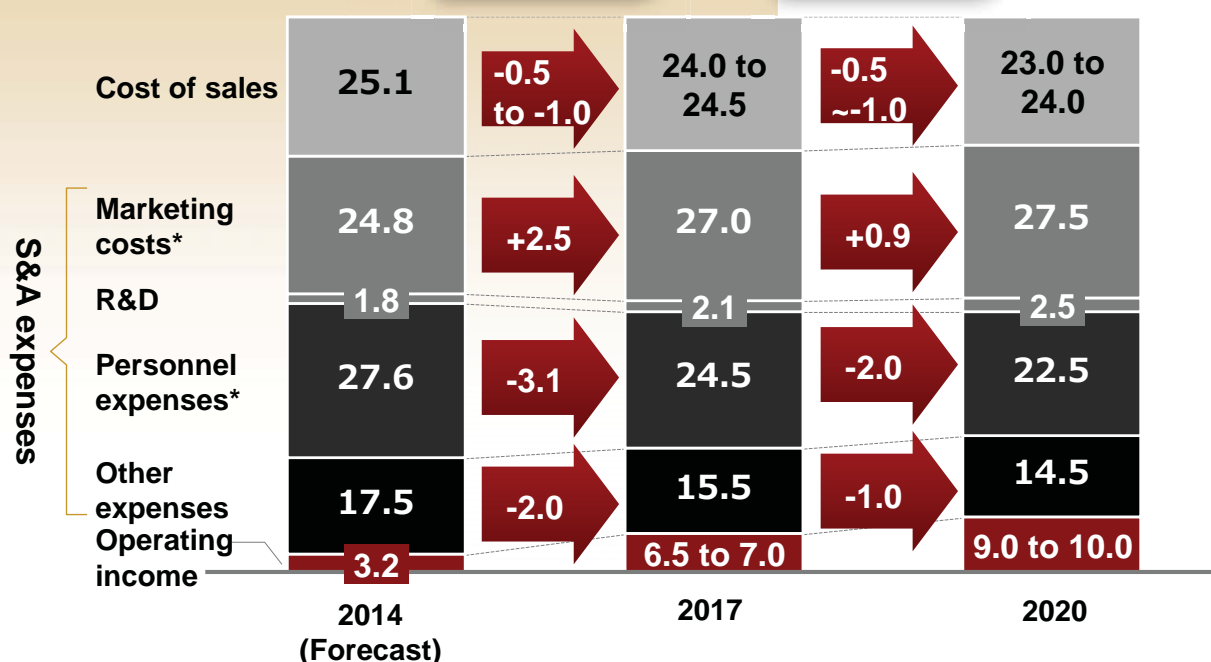


Expand Earnings by Reengineering Businesses

Ratio to net sales
%

Phase 1

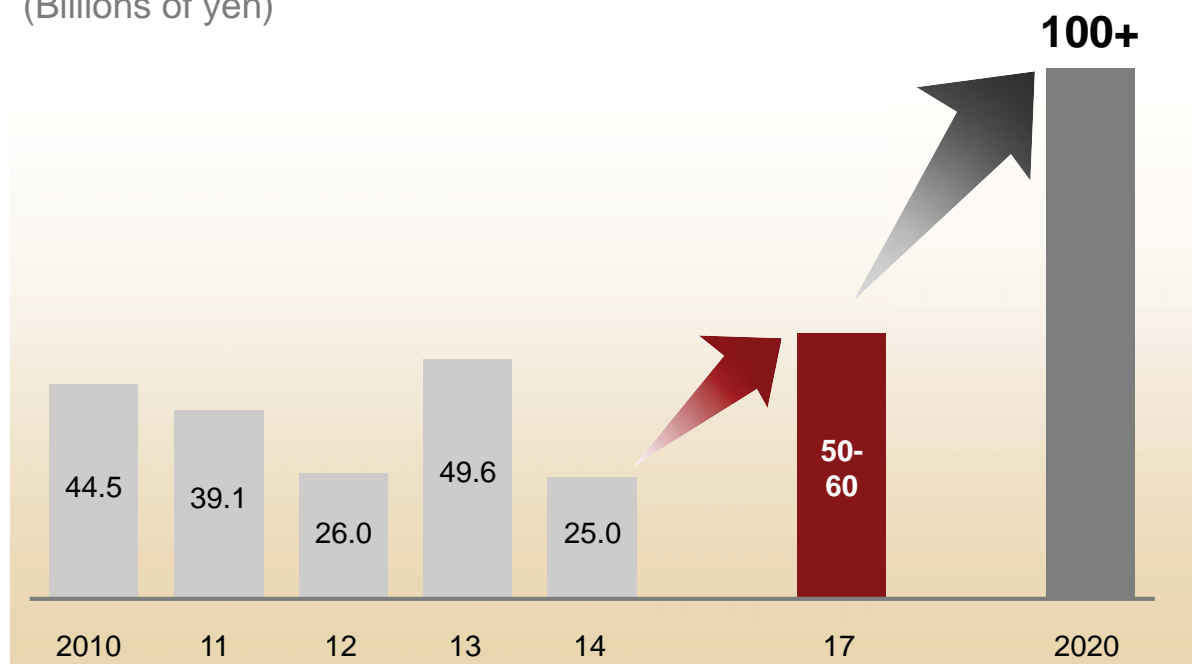
Phase 2



* Counter depreciation expenses and costs of BC who are hired by distributors and retailers previously included in other expenses have been reclassified as marketing costs and personnel expenses, respectively.

Operating Income

(Billions of yen)



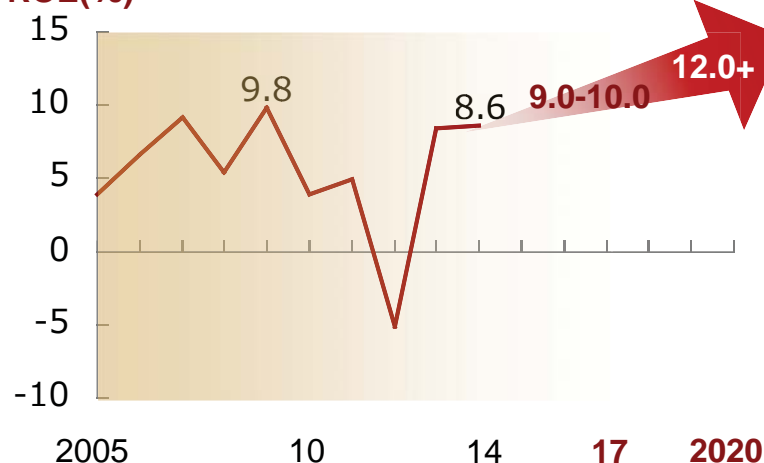
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Shiseido's Key Performance Indicators (KPI)

Sustained growth

- Invest in **brands**
- Increase **brand equity**
- Grow **net sales**
- Increase **operating income**
- Increase **corporate value**

ROE(%)



- Strengthen management of **CF** and **BS**
- Emphasize **FCF¹** and **CCC²**

Increase management efficiency

Allocate the Value Created to Investments for Growth and Shareholder Returns

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- **Investments for growth:**
Strengthen marketing, R&D and M&A investment
- **Dividends:**
Target a 40% payout ratio, and pay stable, sustained dividends
- **Share repurchases:**
Execute when free cash flow and market conditions are appropriate



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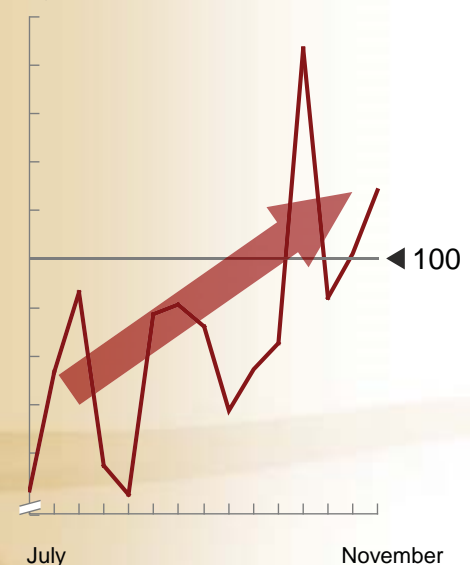
Signs of Change at Shiseido: ICHIGAN Project

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YoY Store Sales (10-day periods)

%; 2014



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Total Commitment of Management

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Reform and strengthen management



Commitment to structural reform



Accountability



Leadership that emphasizes operating realities

Rejuvenate Shiseido

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Rejuvenate Shiseido

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In this document, statements other than historical facts are forward-looking statements that reflect our plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause actual results and achievements to differ from those anticipated in these statements.