

2020 First Quarter Results

(January – March)

Michael Coombs

Chief Financial Officer
Shiseido Company, Limited

May 12, 2020

The Shiseido logo, featuring a stylized white 'S' symbol followed by the word 'SHISEIDO' in a white, uppercase, serif font, set against a dark red background.

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.

2020 Q1 Executive Summary

Significant Impact of COVID-19 Net Sales -16%^{*1}, Operating Profit -83%

Net Sales: ¥226.9 Bn YoY change: -17.1%, FX-Neutral: -15.8%, Like-for-Like^{*1}: -16.4%

- Japan: significant decline in both local and inbound sales (-21%^{*2})
- China: bottomed out in February and on road to recovery from March (-12%)
- Americas: deteriorated dramatically from March due to lockdown, partially offset by growth in E-commerce (-9%^{*3})
- Travel Retail/EMEA: strong start in January, sharply down since February due to lockdowns (Travel Retail: -2%, EMEA: -15%)

Operating Profit: ¥6.5 Bn, OPM 2.9%, YoY change: -¥32.4 Bn, -83.3%

- Challenges in flexibility, unable to offset the drop in gross profit

EBITDA: ¥24.0 Bn, EBITDA margin 10.6%, YoY change: -¥28.6 Bn, -54.4%

- Maintained double-digit EBITDA margin

Net Profit Attributable to Owners of Parent:

¥1.4 Bn YoY change: -¥32.1 Bn, -95.8%

^{*1}. Like-for-like excluding the impacts of (1) business withdrawals, (2) the adoption of the new revenue recognition standard, ASC606, and (3) business acquisitions, etc.

^{*2}. Excluding the impacts of business withdrawals (dermatologic agent brands *FERZEA* and *Encron* in Japan in 2019, etc.)

^{*3}. Excluding the impacts of the adoption of the new revenue recognition standard, ASC 606, including the impacts of the acquisition of *Drunk Elephant* and license agreement with *Tory Burch*.

Summary of 2020 Q1 Results

(Billion yen)	2020		2019		YoY Change %	YoY Change FX- Neutral %	Like-for-Like FX-Neutral % ^{*3}
		% of Net Sales		% of Net Sales			
Net Sales	226.9	100%	273.6	100%	-17.1%	-15.8%	-16.4%
Cost of Sales	49.8	21.9%	56.6	20.7%	-12.0%		
Gross Profit	177.1	78.1%	217.0	79.3%	-18.4%		
SG&A	170.6	75.2%	178.1	65.1%	-4.2%		
Operating Profit	6.5	2.9%	38.9	14.2%	-83.3%		
Non-operating Income/(Expenses)	(0.4)	(0.2)%	0.6	0.2%	-		
Extraordinary Income/(Loss)	(0.4)	(0.2)%	(0.8)	(0.2)%	-		
Tax expenses	3.6	1.6%	3.7	1.4%	-3.1%		
Net Profit ^{*1}	1.4	0.6%	33.5	12.2%	-95.8%		
EBITDA ^{*2}	24.0	10.6%	52.6	19.2%	-54.4%		

Exchange rates: USD 1 = JPY 108.9 (YoY change: -1.2%), EUR 1 = JPY 120.1 (-4.1%), CNY 1 = JPY 15.6 (-4.4%)

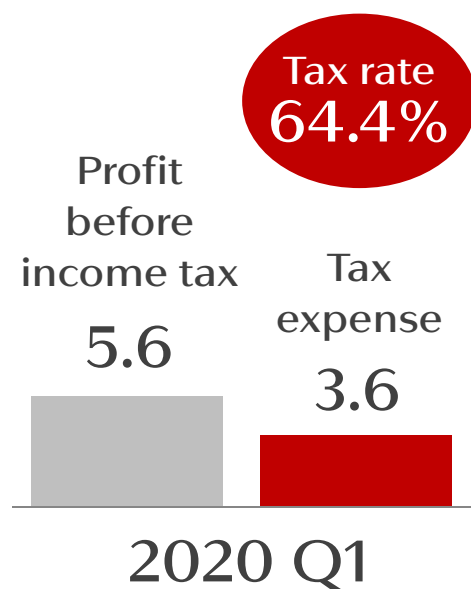
*1. Net Profit Attributable to Owners of Parent

*2. After adjustment: Net income (loss) before income taxes + Interest expense + Depreciation and amortization expense + Impairment loss on goodwill and other intangible assets

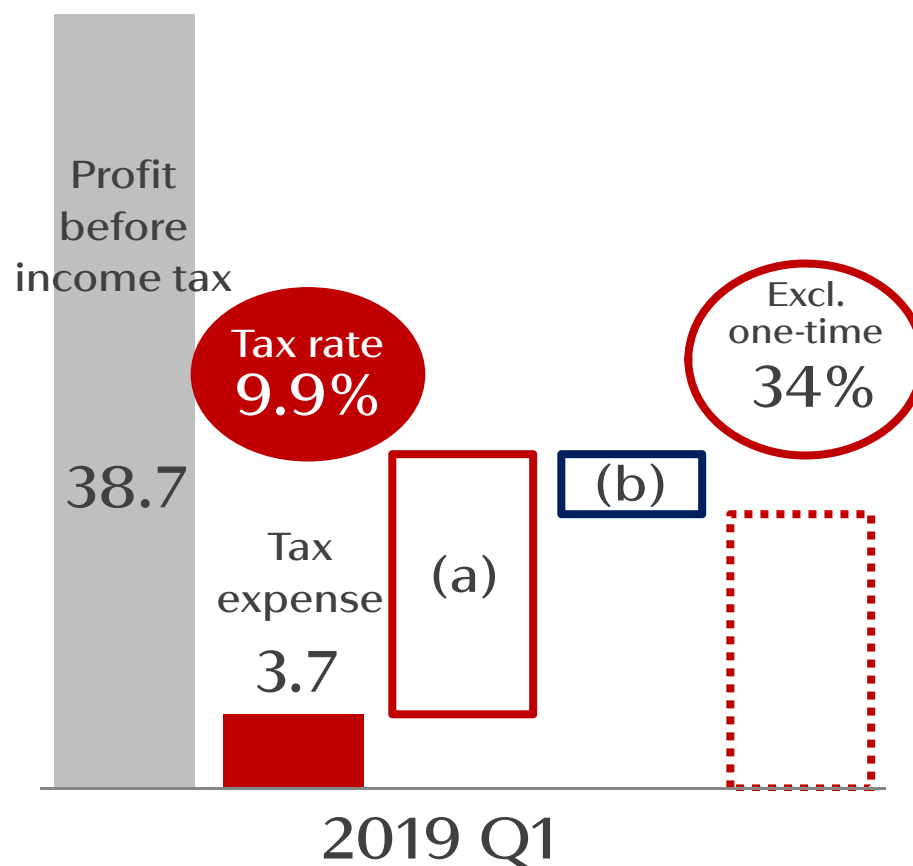
*3. Like-for-like excluding the impacts of (1) business withdrawals (dermatologic agent brands *FERZEA* and *Encron* in Japan in 2019, etc.), (2) the adoption of the new revenue recognition standard, ASC 606 in the Americas, and (3) the acquisition of *Drunk Elephant* and license agreement with *Tory Burch*.

Rise in Tax Rate

(Billion yen)



Negative tax effect from DTA* recoverability, taxable profit decline in the Americas and EMEA



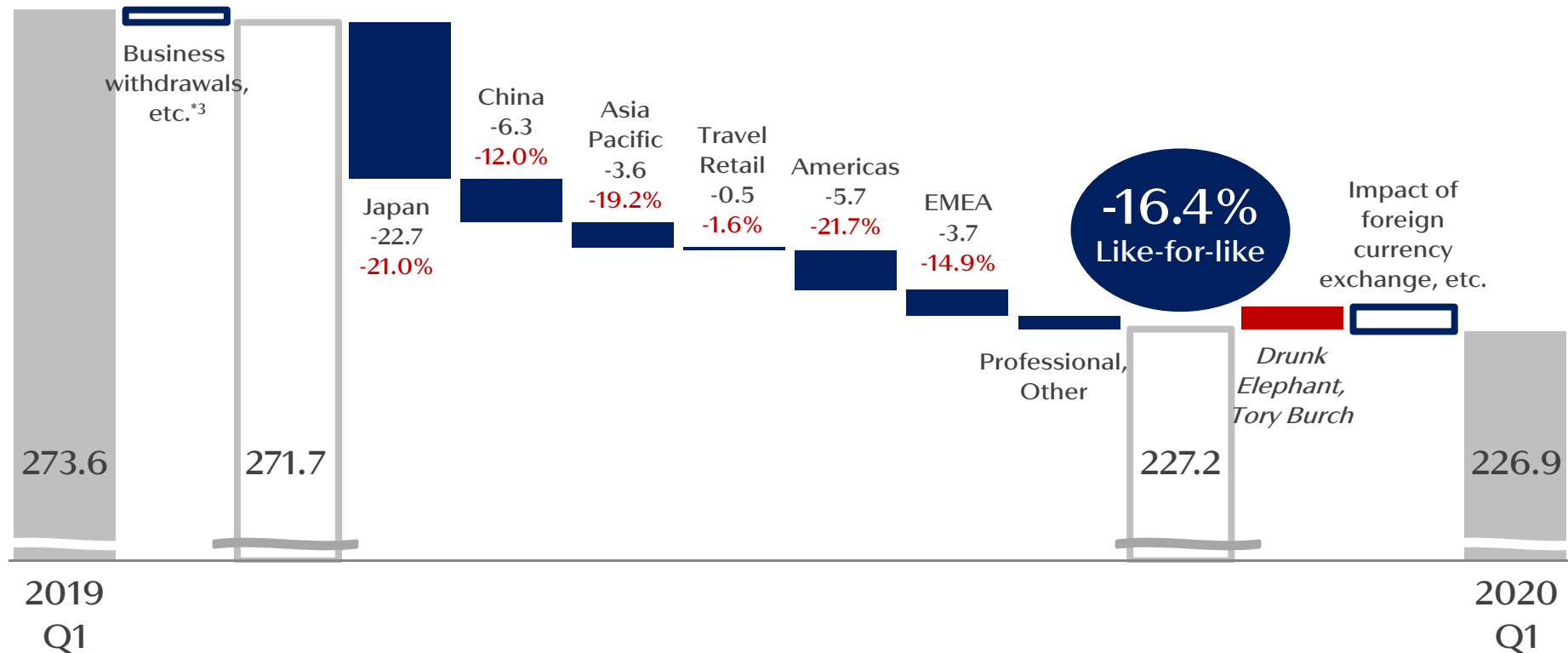
2020 Q1 Sales: All Regions Impacted by COVID-19

China: Encouraging Recovery from March

YoY breakdown of change in net sales by reportable segment

Top: YoY change (billion yen)

Bottom: Like-for-like, FX-neutral



*1. YoY change in local currency for each business is calculated based on the actual exchange rates.

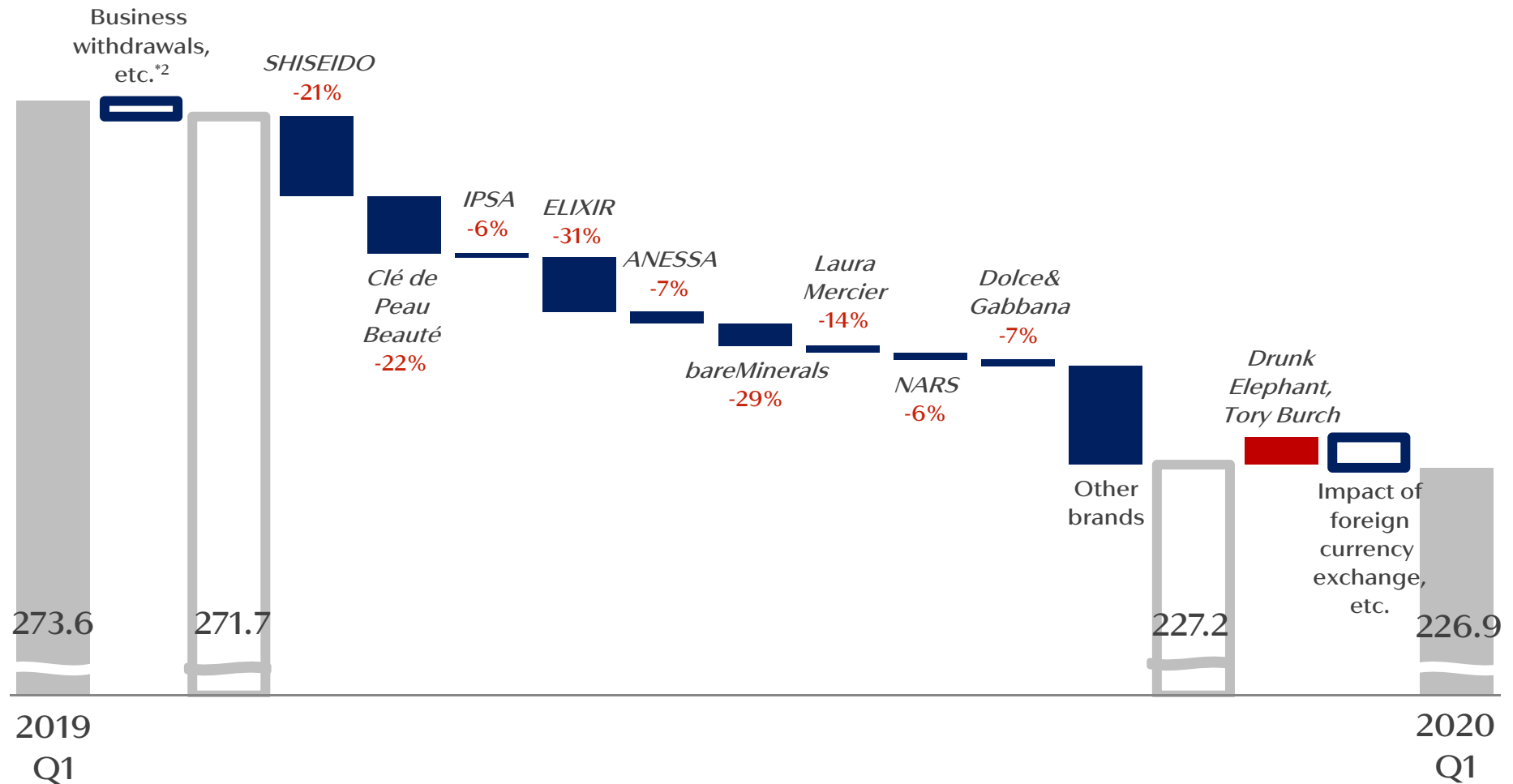
*2. See Supplemental Data 7 for details about segment classifications.

*3. "Business withdrawals, etc." includes the impacts of (1) business withdrawals (dermatologic agent brands *FERZEA* and *Encron* in Japan in 2019, etc.) and (2) the adoption of the new revenue recognition standard, ASC 606 in the Americas.

Sales of Brands Popular with Chinese Consumers Dropped

Change in net sales by brand

YoY change (%), excl. the impact of foreign exchange and adoption of the new revenue recognition standard, ASC 606 in the Americas)



*1. YoY change (%) for each brand is calculated based on initial exchange rate assumptions.

*2. "Business withdrawals, etc." includes the impacts of (1) business withdrawals (dermatologic agent brands *FERZEA* and *Encron* in Japan in 2019, etc.) and (2) the adoption of the new revenue recognition standard, ASC 606 in the Americas.

Business Situation: Quick Resumption from March in China, While Store Closures Continue in Other Regions

Supply Network: Temporary Suspension

Japan	<ul style="list-style-type: none"> • Most offline retail channels: closed or shorter hours; drugstores: remain open • Factories: operating
China	<ul style="list-style-type: none"> • Most business functions resumed in February; getting back to normal from March • E-commerce: solid even during the most serious phase
APAC	<ul style="list-style-type: none"> • Many ASEAN countries under lockdown • Most offline retail channels: closed or shorter hours; drugstores: remain open • Factories in Vietnam and Taiwan: operating
Travel Retail	<ul style="list-style-type: none"> • Flights significantly curtailed, most operators closed or working shorter hours
Americas	<ul style="list-style-type: none"> • Offline stores: closed since mid-March • Distribution center: closed since mid-March, limited opening in April, to resume operation in May with capacity ramping up • Factory: closed from late March, to be re-opened with limited capacity in May
EMEA	<ul style="list-style-type: none"> • Offline stores: closed since mid-March • Distribution center: mostly closed in March • Factories in France: closed from late March to late April

Japan: Decrease in Local Sales due to Stay-at-Home Policy Significant Drop in Inbound Sales

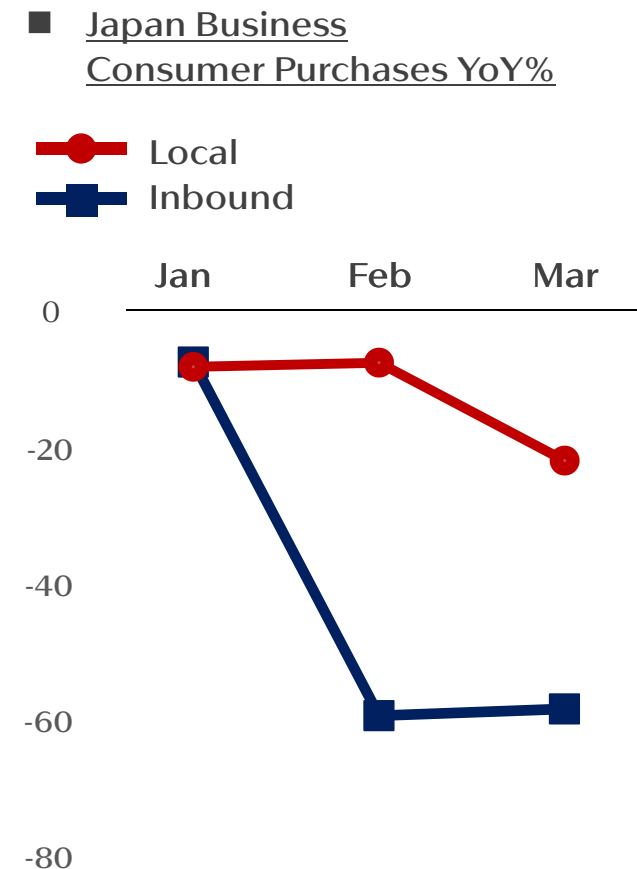
- Market YTD: Double-digit negative growth due to COVID-19

- Travel restrictions during Chinese New Year
- Major retail channels closed/
reduced operating hours

- Shiseido Consumer Purchases:

Q1 -over 20%

- Local: **-low teen%**
 - Refrained from touch-up activities and from placing testers at counters
- Inbound: **-mid 40%**
 - Rapid deterioration since February, particularly in department stores



China: Strong Recovery Driven by E-Commerce

- Market:

- Negative growth especially in offline: 70% stores closed in February, most resumed operation in March
- Strong online demand for beauty products
- Growth in E-commerce

- Shiseido Consumer Purchases: **-20%**

- **Mainland China -14%, outperforming the market**

- E-commerce sales ratio: **high 30%, growing at +25%**

Online prestige grew +160% in March driven by Women's Day promotion

- Prestige brands:

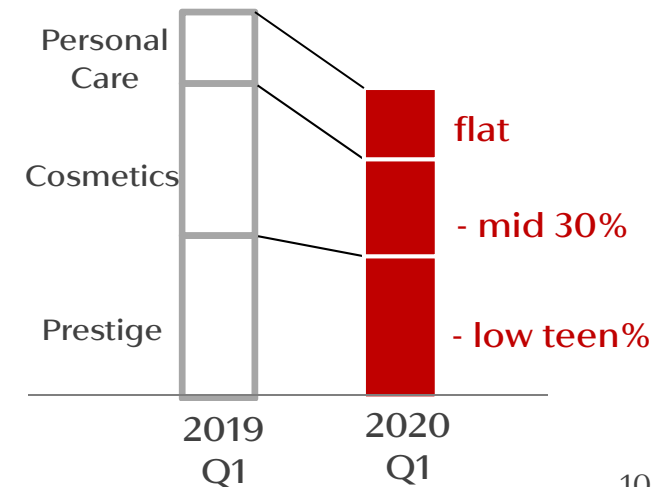
SHISEIDO, Clé de Peau Beauté posted growth, *NARS* grew over 45%

Back to pre-COVID-19 levels in April



Online Professional Beauty Consulting Team

- Consumer Purchases by category YoY%



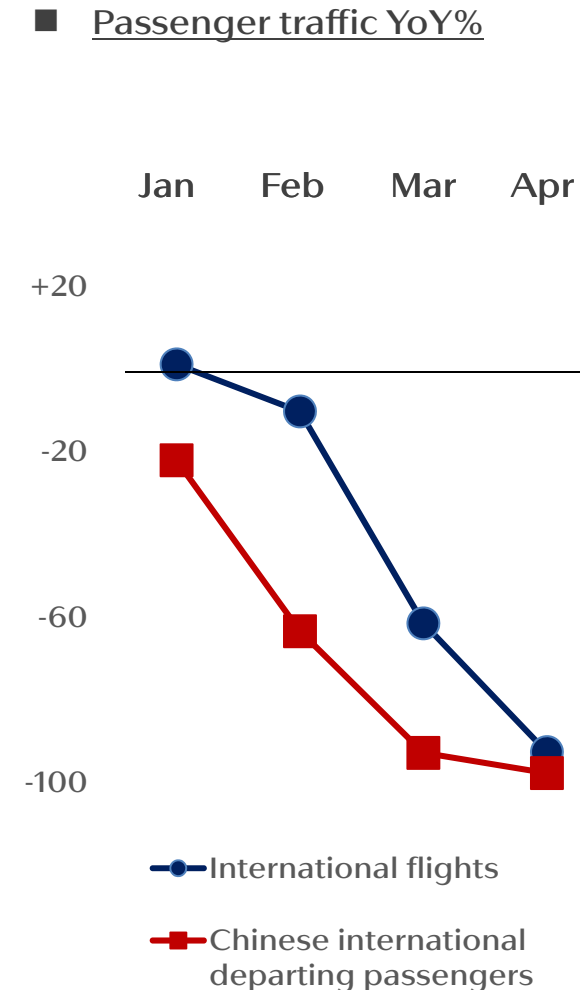
Travel Retail: Absence of Chinese Travellers a Major Challenge

● Market:

- International flights significantly curtailed
- Chinese travellers dropped by over 90% in March
- Most stores closed/reduced operating hours

● Shiseido Consumer Purchases: **-over 20%**

- January: strong momentum continued, Asia grew by over 20% driven by strong demand in South Korea and China
- February onwards:
 - Japan Drastic decline in inbound
 - Asia Sales dropped due to absence of Chinese travellers



Americas: E-Commerce and Drunk Elephant Grew Amid Tough Market

- Market:
Offline: mostly closed since March
Skincare relatively resilient,
Makeup and Fragrance largely negative
- Shiseido External Sales: **-9%*¹**
Like-for-like : **-22%*²**
 - **E-commerce ratio: over 30%, +over 25%**
Focus on Retailer.com
 - *Drunk Elephant*
Consumer purchases: **+14%**
E-commerce ratio: **over 50%, grew at mid 30%**
Solid performance in E-commerce offset
offline decline, resulting in net growth



*1. Excluding the impacts of the adoption of the new revenue recognition standard, ASC 606

*2. Like-for-like excluding the impacts of (1) the adoption of the new revenue recognition standard, ASC 606, and (2) the acquisition of *Drunk Elephant* and license agreement with *Tory Burch*.

EMEA: Drastic Deterioration in March due to Lockdowns

- Market:

Offline: mostly closed since March

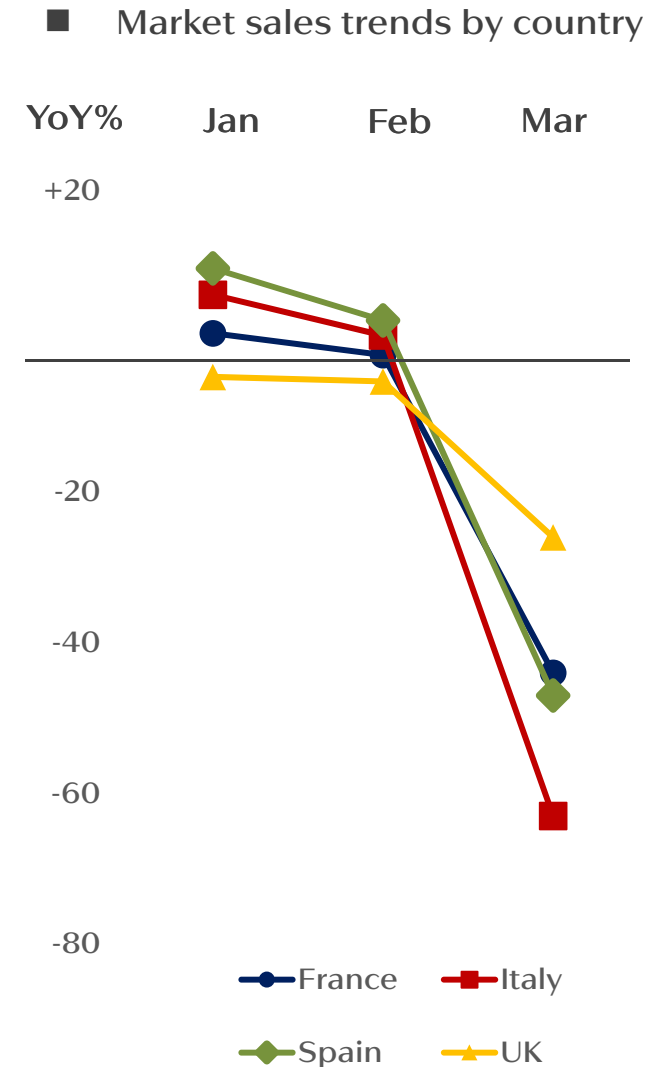
Severe impacts in Italy, Spain, France and UK

- Shiseido External Sales: **-15%**

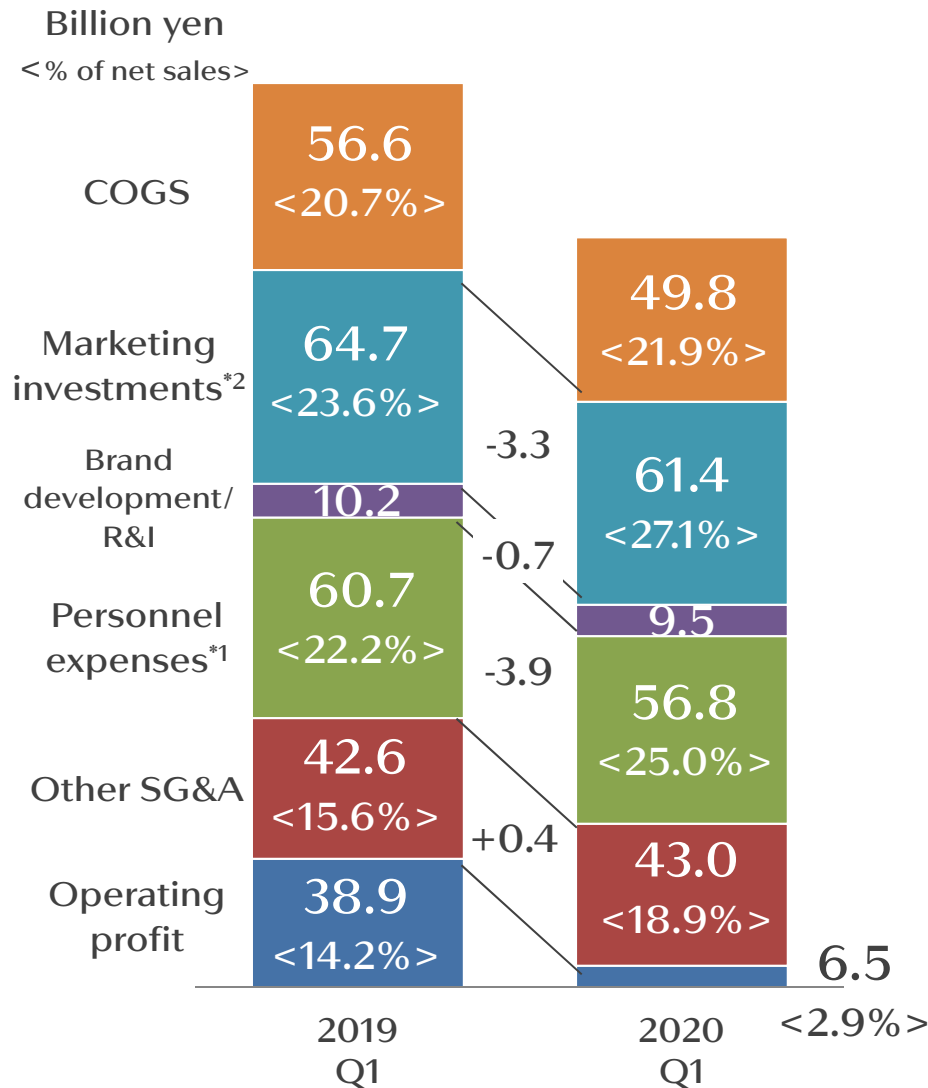
- Strong start in January with double-digit growth
Dolce&Gabbana: solid momentum
K by Dolce&Gabbana, The Only One 3

- In March, offline sales dropped
UK, Spain and Italy suffered most

- E-commerce: grew high single digits



Streamlining Cost Base: Challenges in Flexibility Unable to Offset the Drop in Gross Profit



- COGS +1.2pts (excl. ASC 606 +0.8pts)
 - Product mix deterioration due to inbound sales decline (skincare-skewed portfolio)
 - Increase in inventory write-off/provision
- Marketing investments -¥3.3bn, +3.5pts
 - Postponement/cancellation of promotions/events
 - Decrease in rebate/sample costs
- Personnel expenses -¥3.9bn, +2.8pts
 - Freeze on non-urgent hiring
- Other SG&A +¥0.4bn, +3.3pts
 - Other SG&A -¥2.3bn
Reduction in events/travel/training
 - Amortization/depreciation +¥2.7bn
Drunk Elephant, IT investments

*1. POS personnel expenses are included in "Personnel expenses".

*2. From 2020, the Company reclassified costs, e.g. a part of media costs are reclassified from brand development investments to marketing investments. The results for the previous year have been restated accordingly.

Securing Profit in FY2020

Strict Cost Control, Accelerating Review of Overall Structure

- COGS:
Continue addressing inventory levels, forecast accuracy, excessive & obsolete inventory and lead times. Further optimize contract manufacturing.
- Marketing investments:
While driving ROI, enhance selection and concentration
Cancel/postpone selected launches, advertising and events.
Reduce counter renovations.
- Personnel expenses:
Continued freeze on hiring. Work-style changes for employee productivity.
- Other SG&A: Reduce outsourcing costs. Postpone/cancel meetings, events & travel.
Revisit CAPEX to reduce depreciation/amortization.
- Stop/pause selected strategic projects (CoE*, new business development).
- Balance sheet and cash flows:
Manage inventory to minimize working capital

Evolution of Business Management in Line with Market Changes

- Strengthen business monitoring, checking and execution capabilities on a daily, weekly, and monthly basis
- Zero-based budget management, flexible budget and investment reallocation

Cash Flow and Liquidity Management

- **Liquidity enhancement: +¥200 bn**
through increasing credit facilities and commitment lines
- **CAPEX compression: ¥40 bn vs. plan**
postpone/cancel investments in production facilities,
IT software and counter upgrades, etc.
- **Working capital minimization:**
strengthen inventory management by reducing lead times

FY2020 Guidance

- Business environment:

Hard to foresee how and when the pandemic will end

Social restrictions resulting from lockdowns and stay-at-home policy

Uncertainties over government policies/timelines for lifting

Likelihood of recession due to economic slowdown

- Shiseido's guidance:

Withdraw the original FY2020 guidance and dividend forecast

Revised guidance to be disclosed with Q2 announcement

with more clarity on business environment and market situation

Tackling COVID-19 Impact

Crisis as a Transformation Opportunity

Masahiko Uotani

Representative Director, President and CEO
Shiseido Company, Limited

May 12, 2020

The Shiseido logo, featuring a stylized white 'S' symbol followed by the word 'HISEIDO' in a white, uppercase, serif font, set against a dark red background.

“BEAUTY INNOVATIONS FOR A BETTER WORLD”

- Production of hand sanitizer and provision to medical institutions
 - Japan, Americas and EMEA:
over 400 thousand bottles/month in total
- Donation of relief supplies to medical institutions, retail stores, etc.
 - Masks (China, Indonesia)
 - Skincare and cosmetics (China, Singapore, Taiwan*)
 - Face shields (Thailand)
- “Beauty in Hard Times, Beauty in All Times” (Japan)
A project to invigorate customers and consumers with the power of beauty while staying at home
 - Tabloid beauty magazine (10 million copies)
Included in newspapers, distributed at stores
 - Beauty advice through social media



Relay of Love Project

- 10 million CNY for healthcare and infection prevention
 - Donated to charity foundations of Wuhan and Shanghai
- 1% of sales in Asia go to donations, product offerings, reinvigorating events
 - Beauty Caravan in seven major cities: Reach out to over 10,000 Chinese women and children with the power of beauty
- Products delivered to healthcare professionals and their families through the China Women's Development Foundation
- Free haircuts for healthcare professionals by our hair stylists



Economic Impact of COVID-19 and Business Environment Scenarios

Crisis as a Transformation Opportunity



Fundamental Reforms for Resilience: Transformation Based on Worst-case Scenario

2020	Defend Business/ Review Mid-term Strategy	<ul style="list-style-type: none">● Tighten cost management to minimize business impacts● Continue strategic investment in the recovery of China● Rebuild mid- to long-term strategy Formulate new VISION
2021- 2022	Fundamental Reforms	<ul style="list-style-type: none">● 2021: Gradual recovery, growth yet to start Promote fundamental structural reforms Bolster investment in the recovery of China● 2022: Gradual recovery throughout the year Complete structural reforms for a resilient revenue base
2023-	Realize the New VISION	<ul style="list-style-type: none">● Accelerate investment for growth in 2023 and beyond with a resilient revenue base

Realize Our VISION for 2023 and Beyond with a Strong Revenue Base and Foundation for Growth

- Global-level productivity
- Cash-flow-oriented business
- Sustainability-focused management and marketing
- Restructuring of business and brand portfolios
 - Review business, brand, and regional strategies
 - Divest non-core businesses and conduct strategic M&As
- Digital transformation of business models
 - Enhance omni-channel, D2C and Beauty Tech
- Increased capability and cost efficiency through collaborations and open innovation (SCM, R&I)
- Diverse people, organizations, work styles

**Be a Global Winner
with Our Heritage**



SHISEIDO

Supplemental Data 1

Q1 Sales by Reportable Segment

(Billion yen)	2020		2019		YoY Change	YoY Change %	YoY Change FX-Neutral %	YoY Change FX-Neutral % (Like-for-Like*2)
		% of Net Sales		% of Net Sales				
Japan	85.7	37.8%	108.7	39.8%	-23.0	-21.2%	-21.2%	-21.0%
China	44.5	19.6%	52.5	19.2%	-8.0	-15.2%	-12.0%	-12.0%
Asia Pacific	15.1	6.6%	18.9	6.9%	-3.9	-20.3%	-19.2%	-19.2%
Americas	23.3	10.3%	27.7	10.1%	-4.4	-15.9%	-14.6%	-21.7%
EMEA	20.4	9.0%	25.0	9.1%	-4.6	-18.3%	-14.9%	-14.9%
Travel Retail	27.8	12.2%	28.7	10.5%	-0.9	-3.1%	-1.6%	-1.6%
Professional	2.9	1.3%	3.5	1.3%	-0.7	-18.7%	-17.2%	-17.2%
Other	7.2	3.2%	8.5	3.1%	-1.3	-15.5%	-15.5%	-15.5%
Total	226.9	100%	273.6	100%	-46.7	-17.1%	-15.8%	-16.4%

*1. See Supplemental Data 7 for details about changes in reportable segments. The previous year's results are restated to reflect the new reportable segments.

*2. Like-for-like excluding the impacts of (1) business withdrawals (dermatologic agent brands *FERZEA* and *Encron* in Japan in 2019, etc.), (2) the adoption of the new revenue recognition standard, ASC 606 in the Americas, and (3) the acquisition of *Drunk Elephant* and license agreement with *Tory Burch*.

Supplemental Data 2

Japan Q1 Sales by Category

	(Billion yen)	2020		2019		YoY Change	YoY Change %
			% of Net Sales		% of Net Sales		
	Prestige	18.1	21.1%	28.1	25.9%	-10.0	-35.6%
	Premium	45.7	53.3%	59.3	54.5%	-13.6	-23.0%
	Lifestyle	16.4	19.2%	15.3	14.1%	+1.1	+6.9%
	Others* ²	5.5	6.4%	5.9	5.5%	-0.5	-8.0%
	Sales	85.7	100%	108.7	100%	-23.0	-21.2%

YoY change excluding the impact of business withdrawals was -21.0%.

- *1. Sub segments within the Japan Business have been reclassified in line with the management structure change in 2020, and 2019 figures are restated accordingly. "Lifestyle" and "Premium" are equivalent to what was previously referred to as "Personal Care" and "Cosmetics", respectively. Healthcare Business and *ettusais*, etc., previously included in "Others" are now included in "Lifestyle", and Future Business previously included in "Others" is now included in "Prestige".
- *2. "% of Net Sales" indicates percentage of Japan Business sales.
- *3. See Supplemental Data 7 for details about changes in reportable segments. The previous year's results are restated to reflect the new reportable segments.

Supplemental Data 3

Q1 Operating Profit by Reportable Segment

(Billion yen)	2020			2019			YoY Change	YoY Change %
		OPM %	OPM % excl. amortization of goodwill etc.		OPM %	OPM % excl. amortization of goodwill etc.		
Japan	8.1	8.7%	8.8%	22.6	19.9%	19.9%	-14.6	-64.4%
China	5.3	11.8%	12.3%	13.0	24.7%	24.8%	-7.7	-59.3%
Asia Pacific	1.1	6.8%	7.5%	2.4	12.1%	12.1%	-1.3	-55.0%
Americas	(8.9)	(29.4)%	(23.4)%	(4.5)	(12.1)%	(8.8)%	-4.4	-
EMEA	(6.5)	(27.9)%	(25.5)%	(1.8)	(6.7)%	(5.1)%	-4.6	-
Travel Retail	5.0	17.9%	18.5%	7.5	26.1%	26.1%	-2.5	-33.7%
Professional	0.1	2.0%	2.0%	0.1	1.5%	1.5%	+0.0	+6.3%
Other	4.2	9.4%	9.6%	1.4	3.1%	3.3%	+2.9	+209%
Subtotal	8.4	3.0%	4.0%	40.6	12.4%	13.0%	-32.2	-79.4%
Adjustment	(1.9)	-	-	(1.6)	-	-	-0.2	-
Total	6.5	2.9%	4.2%	38.9	14.2%	14.9%	-32.4	-83.3%

*1. OPM is calculated using net sales including intersegment sales.

*2. See Supplemental Data 7 for details about changes in reportable segments. The previous year's results are restated to reflect the new reportable segments.

Supplemental Data 4

Q1 SG&A Details

		2020		YoY Change	YoY Change %	YoY Change FX-Neutral %
			% of Net Sales			
	(Billion yen)					
SG&A	170.6	75.2%	+10.1 pts	-7.5	-4.2%	-2.7%
Marketing Investments ^{*2}	86.1	38.0%	+3.7 pts	-7.9	-8.4%	-6.7%
Brand Development/ R&I Investments	9.5	4.2%	+0.5 pts	-0.7	-6.8%	-5.4%
Personnel Expenses	32.1	14.1%	+2.6 pts	+0.6	+2.1%	+3.5%
Other SG&A Expenses	43.0	18.9%	+3.3 pts	+0.4	+1.0%	+2.1%

*1. The "+" and "-" symbols in YoY Change are used to indicate increase and decrease in amount and percentage of net sales, respectively.

*2. Marketing Investments includes POS personnel expenses.

*3. From 2020, the Company reclassified costs, e.g. a part of media costs are reclassified from brand development investments to marketing investments. The results for the previous year have been restated accordingly.

Supplemental Data 5

Q1 Non-operating Income and Expenses, Extraordinary Income and Losses

Non-operating Income and Expenses				Extraordinary Income and Losses			
(Billion yen)		2020	2019	(Billion yen)		2020	2019
	Interest Income	0.2	0.3		Gain/(Loss) on Sales or Disposal of Property, Plant and Equipment	(0.4)	(0.3)
	Interest Expense	(0.7)	(0.2)				
Net Interest Income/(Expense)		(0.5)	0.0	Loss on Liquidation of Subsidiaries and Affiliates, etc.		0.0	(0.5)
Subsidy Income		2.4	1.0				
Foreign Exchange Gain/(Loss)		(2.0)	(0.5)				
Others		(0.4)	0.0				
Total		(0.4)	0.6	Total		(0.4)	(0.8)

Supplemental Data 6: Consolidated Balance Sheets

(Billion yen)	As of Mar. 31, 2020	Change from Dec. 31, 2019
Total Current Assets	504.2	-28.5
Cash, Time Deposits	99.3	-11.0
Notes & Accounts Receivable	152.3	-20.6
Inventories	191.2	+10.1
Total Fixed Assets	674.3	-11.9
Property, Plant and Equipment	311.2	-3.5
Intangible Assets	248.1	-1.1
Investments and Other Assets	115.0	-7.2
Total Assets	1,178.5	-40.3

(Billion yen)	As of Mar. 31, 2020	Change from Dec. 31, 2019
Total Liabilities	674.5	-26.4
Notes & Accounts Payable and Other Payables	142.7	-43.4
Interest-Bearing Debt	293.1	+45.0
Accrued Bonuses	18.6	-6.6
Accrued Income Taxes	9.6	-2.4
Total Net Assets	504.0	-13.9
Shareholders Equity	493.6	-10.5
Accumulated Other Comprehensive Income	-11.1	-3.4
Non-Controlling Interests	20.1	-0.0
Total Liabilities and Net Assets	1,178.5	-40.3

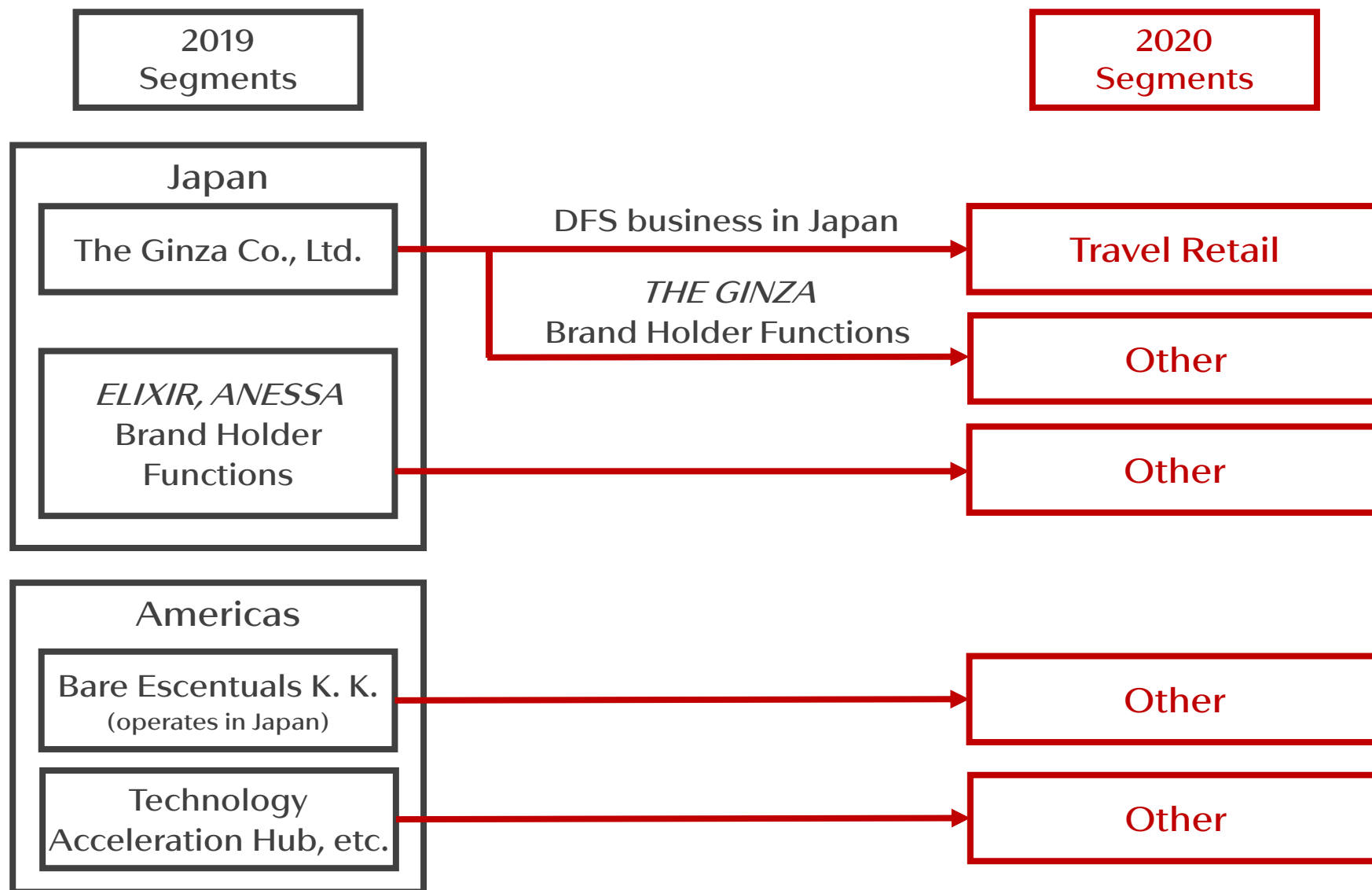
Exchange rates:

Mar. 31, 2020: USD 1 = JPY 108.6 (+0.1%); EUR 1 = JPY 118.9 (-2.3%); CNY 1 = JPY 15.3 (-1.9%)

Dec. 31, 2019: USD 1 = JPY 108.5 ; EUR 1 = JPY 121.8 ; CNY 1 = JPY 15.6

* Main line items only

Supplemental Data 7: Change in Reportable Segments



* The Group has revised its reportable segment classifications from 2020. Airport duty free business, etc., in Japan of The Ginza Co., Ltd., previously included in the Japan Business, is now included in Travel Retail Business, and the brand holder functions of *THE GINZA*, the same subsidiary's brand, are included in Other. Bare Escentuals K.K., operating in Japan, the Technology Acceleration Hub, etc., previously included in the Americas Business, and the brand holder functions of *ELIXIR* and *ANESSA*, previously included in the Japan Business, are now included in Other.