

## Shiseido Develops the “New Three-Year Plan” (2018-2020) –Accelerating Growth to Be a Global Winner with Our Heritage–

Shiseido Company, Limited (“Shiseido”) has developed the “New Three-Year Plan” (2018-2020) starting in 2018. Towards the realization of “VISION 2020”, the six-year medium-to-long term strategy that was developed in 2014, the first three years (2015 to 2017), were dedicated to the phase of “Rebuild the Business Foundation” and thoroughly resolve structural issues of the business both in Japan and overseas while reinforcing marketing investment. As a result, in 2017 we surpassed 1 trillion JPY in sales, a target originally set for 2020. Operating income also increased and reached its highest level ever.

With sights set on 2030, the three years between 2018 and 2020 become a phase to implement a “New Strategy to Accelerate Growth” and be among the top three companies in the Global Prestige Cosmetics Market while maintaining our significant presence in Japan and Asia. With prestige brands<sup>\*1</sup> as our core business we aim to “Be a Global Winner with Our Heritage” through digital acceleration, synergy maximization with new technologies and brands that have now joined Shiseido, and by increasing further investment.

<sup>\*1</sup> Prestige brands: “SHISEIDO,” “Clé de Peau Beauté,” “IPSA,” “NARS,” “bareMinerals,” “Laura Mercier,” “Dolce&Gabbana,” etc.

### Objective of New Three-Year Plan (2018-2020)

Under the New Three-Year Plan of the second phase of the medium-to-long term strategy “VISION 2020,” the brands strategy will be further tuned to respond to the needs of every region’s local consumers, active marketing investment will grow, and we will move forward with digital acceleration, new business development, and new value creation through innovation. We will also prioritize and actively invest into our people’s development as we believe that they are the source of new value creation and of our growth. Furthermore, with our global management structure evolution and through a CAGR<sup>\*2</sup> of more than 8% over 2018-2020, we aim to achieve sales exceeding 1.2 trillion JPY, operating income exceeding 120 billion JPY, and ROE exceeding 14% by 2020, the final year of the new strategy.

<sup>\*2</sup>CAGR: Compound Annual Growth Rate

### Key Strategies Under the New Three-Year Plan - Building for the Future -

#### 1. Further “Selection and Concentration” of Brand Businesses

While maintaining “Prestige First” as our central strategy, we will sustain and expand our growth potential while accelerating the growth of our Cosmetics and Personal Care Brand Business in Asia. With further development in mind we will commit an additional investment in marketing on the base of the 2017 amount, a combined sum of 120 billion JPY in annual increments over the next three years.

### (1) “Prestige First” Strategy

We will aim to increase sales of makeup and fragrances in the global prestige market in order to expand our market share while strengthening our profit base by increasing sales of skincare products, Shiseido’s biggest strength. Through the introduction of innovative breakthrough products, product development in collaboration with retailers, upgrades in visual merchandizing, expansion of brand shops, and optimization of digital communication through Social Media we will provide our customers with more brand experience opportunities. We will also develop further upon our cross-border marketing, mainly focusing on the Chinese consumer, expanding to all of Asia and in the future to the rest of the world.

### (2) Cosmetics and Personal Care Brands Strategy for Asia

In the Asian market, in addition to prestige brands, we will expand to promote four more brands currently marketed mainly in Japan (**ELIXIR**, **ANESSA**, **SENKA**, and **INTEGRATE**) to the China market and other Asian regions. In order to capture the needs of consumers in each market we will expand our research and development, develop products that bring high added value, and collaborate with retailers, and, thus, further enhance our brand power.

With the purpose of restructuring our supply system, we will increase our capital expenditure, separate from the marketing investment, by a total of 130 billion JPY within the next three years, in order to enhance the production system, build new factories, and strengthen cooperation with suppliers.

## **2. Acceleration of Digitalization and New Business Development**

In e-commerce (EC), we will strengthen cooperation with major EC websites around the world, integrate in-store customer data at the shop front, and promote CRM (customer relationship management).

In order to elevate the business operations infrastructure, while developing all employees’ capabilities, we will also promote the seamless integration of business processes between the main headquarters and every regional headquarter, build an integrated IT platform, and centralize the management of data. This will require an investment of approximately 27 billion JPY in total over the next three years.

For new business development, we will strengthen our solutions through personalization in order to provide value according to every consumer’s individual needs. By combining superior digital technologies (including IoT) with our exciting businesses we will create new products and consumer experiences.

## **3. New Value Creation through Innovation**

By merging our own knowledge and experience with the capabilities of acquired brands and technologies together with the high expertise of talented people we will not only produce innovation in cosmetics but also build innovative business models and explore new frontiers such as artificial skin, hair and skin regeneration, and advanced beauty care. Furthermore we will increase the number of R&D personnel to 1,500 and aim for R&D investment-to-sales ratio of 3% by 2020. In order to maximize R&D capabilities on a global level, the “Global Innovation Center” will start its operations in Yokohama Minato Mirai 21, from December 2018, as a hub for all our innovation centers around the world.

## **4. Developing Talent and Organization to Be a Global Winner - PEOPLE FIRST -**

We will be opening training facilities at all our regional headquarters targeting employees all over the world, in addition to an MBA program for young employees in order to develop future global talent, enhancement of leadership training programs for management personnel development, and English language training as preparation for the English mandate starting from October 2018. Over the three years, we plan to invest

approximately 14 billion JPY in total. At the same time, we will renovate our office environment both in Japan and overseas. Furthermore, in order to accelerate diversity of our organization, we will create a global talent database with unified standards and promote global mobility. In Japan, we will also aim to reach a 40% ratio of women in managerial positions, considering the specifics of our business.

## 5. Next New Global Management Model

In 2016, we launched a matrix-type global management structure intersecting brand categories with our six regions<sup>\*3</sup>. At the same time, we established four “Centers of Excellence (COE)” in which regions that significantly influence categories globally lead strategy planning and product development. Japan hosts the COE for skincare, the Americas for makeup and digital marketing, and EMEA for fragrances. From 2018, we will leverage the respective knowledge and experience acquired in each region for the benefit of each brand and global marketing in order to realize a new business model and digitalization as quickly as possible. To that end, we will establish the “Technology Innovation Center” in Boston, US, among others.

<sup>\*3</sup> Regions: Japan, China, Asia Pacific, Americas, EMEA, Travel Retail

### Key Directions of Regional Headquarters

Japan, China, Asia Pacific and Travel Retail will maintain and further accelerate the growth momentum for high profitability. With regards to the Americas and EMEA, we will work on improving our profitability and aim for more than 10% operating profit margin.

Japan	Focus on Skincare, Base Makeup, Sun Care/ High appeal to the younger generations and children of baby boomers /Enhancement and expansion of contact points with consumers
China	Acceleration of Prestige brands growth/Acceleration of digital /EC
Asia Pacific	Acceleration of Prestige brands growth/ Building solid base for Cosmetics and Personal Care
Americas	Improvement of profitability of bareMinerals/ Creating a new business model through advanced technology
EMEA	Improvement of profitability of fragrance / Full-scale expansion to the Middle East region
Travel Retail	Enhancement of brand portfolio / Strengthening cooperation with operators

### Financial Strategies

#### 1. Returns to Shareholders

With regards to return to shareholders, we aim to achieve total returns, comprising direct returns and medium-to-long-term share price gains. Although we traditionally aimed at a target payout ratio of 40% on medium-term basis, from 2018 we will give more emphasis to free cash flow and will achieve long-term, stable and continuous returns aiming for the minimum level of dividend on equity ratio (DOE) at 2.5%. We will also buy back shares flexibly taking the market environment into consideration.

#### 2. Financial KPIs

With the aim to improve corporate value on the medium-to-long term basis, we will create cash flow through consistent growth and improvement of capital efficiency while strengthening our financial foundation even further. By doing so, we will aim at an ROE exceeding 14%, for return on invested capital (ROIC) to exceed 12%, and for a cash conversion cycle (CCC)<sup>\*4</sup> of 100 days or less.

<sup>\*4</sup> CCC: Receivables turnover period (days)+Inventory turnover period (days)—Payables turnover period (days)

### **3. Investment Enhancement**

In order to ensure persistent growth beyond 2020, we plan to produce operating cash flow of more than 350 billion JPY in total over the four years starting from 2017, and to spend more than 300 billion JPY in total over the three years on capital expenditure under our key strategies, such as IT and supply chain, separately from marketing investment and investment in human resources.

For any inquiries on this press release, please contact Global Communications Department, Shiseido Co., Ltd.  
Tel: +81-3-6218-5200 (direct)