

速攻ケア。シワに深く、効く。



進化した  
「シワ改善」美容液  
iP.Shot

# DECORTÉ

DECORTÉ  
コスメデコルテ iP.Shot アドバンスト [医薬部外品] (シワ改善美容液) 20g 10,000円(税抜) 販売名称:コスメデコルテ アイビー ショット アドバンスト



## KOSÉ Corporation

### Results of Operations

Six Months Ended September 30, 2018

October 31, 2018

## **1. 1H FY03/2019 Results of Operations**

**Shinichi Mochizuki, Executive Officer,  
General Manager of Accounting and Finance Dept.**

## **2. Key Goals**

**Kazutoshi Kobayashi, President & CEO**

## **3. Supplementary Information (Medium-term Management Plan 2020 and VISION2026)**

## Record-high sales and earnings at all levels

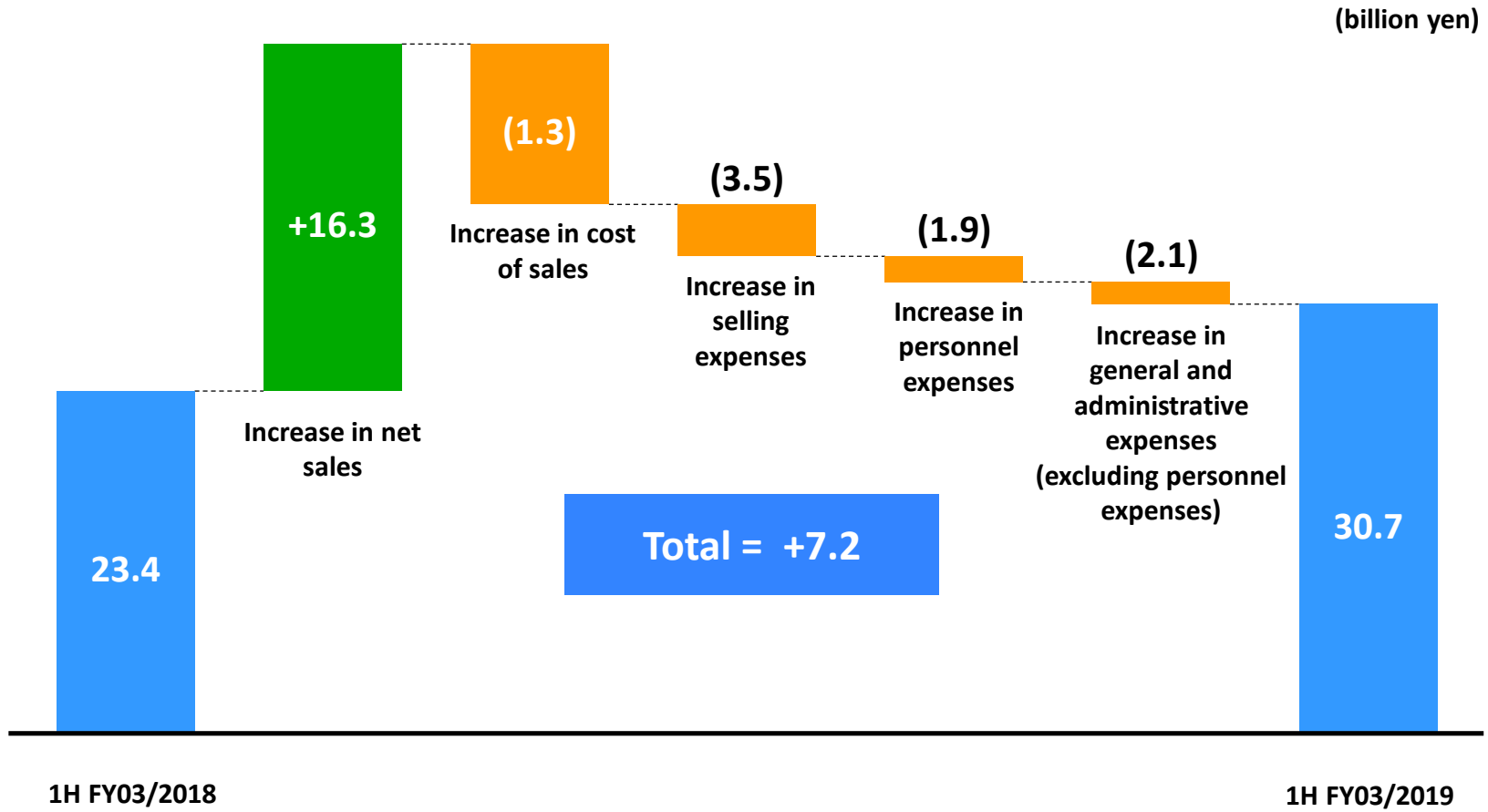
(Record-high sales and operating profit for the sixth and fourth consecutive years, respectively)

	1H FY03/2018		1H FY03/2019		YoY change		Vs plan (Jul. 31)	
	Amount (million yen)	Ratio to net sales (%)	Amount (million yen)	Ratio to net sales (%)	(million yen)	(%)	(million yen)	(%)
Net sales	144,615	100.0	<b>160,996</b>	<b>100.0</b>	16,380	11.3	(1,003)	(0.6)
Cost of sales	39,403	27.2	<b>40,799</b>	<b>25.3</b>	1,396	3.5	-	-
SG&A expenses	81,743	56.6	<b>89,483</b>	<b>55.6</b>	7,739	9.5	-	-
Operating profit	23,467	16.2	<b>30,712</b>	<b>19.1</b>	7,245	30.9	(287)	(0.9)
Ordinary profit	23,940	16.6	<b>32,610</b>	<b>20.3</b>	8,670	36.2	410	1.3
Profit before income taxes	23,884	16.5	<b>33,256</b>	<b>20.7</b>	9,372	39.2	-	-
Profit attributable to owners of parent	15,212	10.5	<b>22,214</b>	<b>13.8</b>	7,001	46.0	(385)	(1.7)
Net income per share	266.68 yen		389.42 yen		+122.74 yen		(6.77) yen	

Note: Net sales increased 11.6x% YoY after excluding the effects of changes in foreign exchange rates

		1H FY03/2018		1H FY03/2019		YoY change	
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Cost of sales		39,403	27.2	<b>40,799</b>	<b>25.3</b>	1,396	3.5
Gross profit		105,211	72.8	<b>120,196</b>	<b>74.7</b>	14,984	14.2
SG&A expenses		81,743	56.6	<b>89,483</b>	<b>55.6</b>	7,739	9.5
<Significant accounts>							
Selling expenses	Advertising	8,697	6.0	<b>9,257</b>	<b>5.8</b>	559	6.4
	Sales promotion	25,636	17.7	<b>27,373</b>	<b>17.0</b>	1,737	6.8
	Freightage and packing	5,469	3.8	<b>6,742</b>	<b>4.2</b>	1,272	23.3
	Subtotal	39,803	27.5	<b>43,372</b>	<b>26.9</b>	3,569	9.0
General and administrative expenses	Personnel	26,581	18.4	<b>28,555</b>	<b>17.7</b>	1,974	7.4
	Depreciation	1,461	1.0	<b>1,812</b>	<b>1.1</b>	350	24.0
	R&D	2,557	1.8	<b>2,651</b>	<b>1.6</b>	94	3.7
	Others	11,339	7.8	<b>13,091</b>	<b>8.1</b>	1,751	15.4
Subtotal		41,940	29.0	<b>46,110</b>	<b>28.6</b>	4,170	9.9
Operating profit		23,467	16.2	<b>30,712</b>	<b>19.1</b>	7,245	30.9

## Significant growth in operating profit due to higher sales

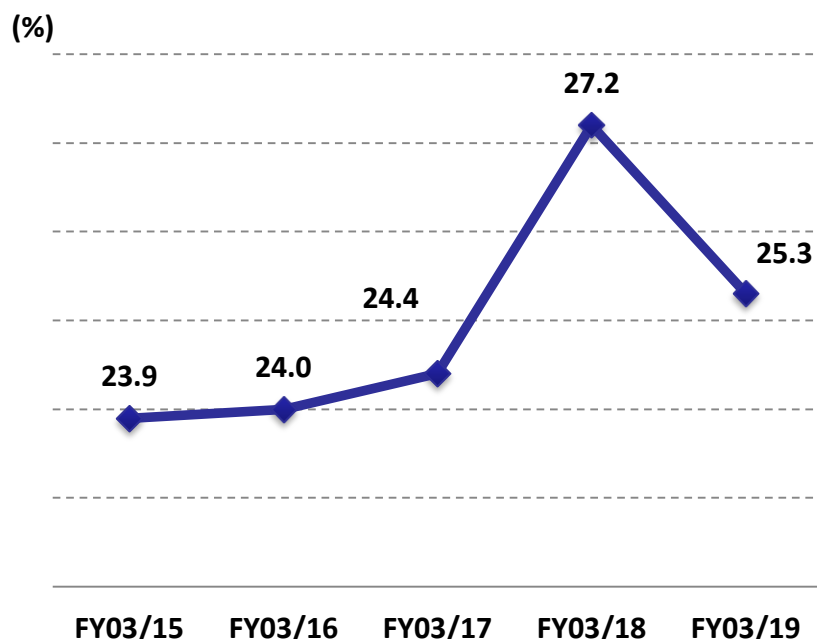


# Cost cut and the efficient use of SG&A expenses continued

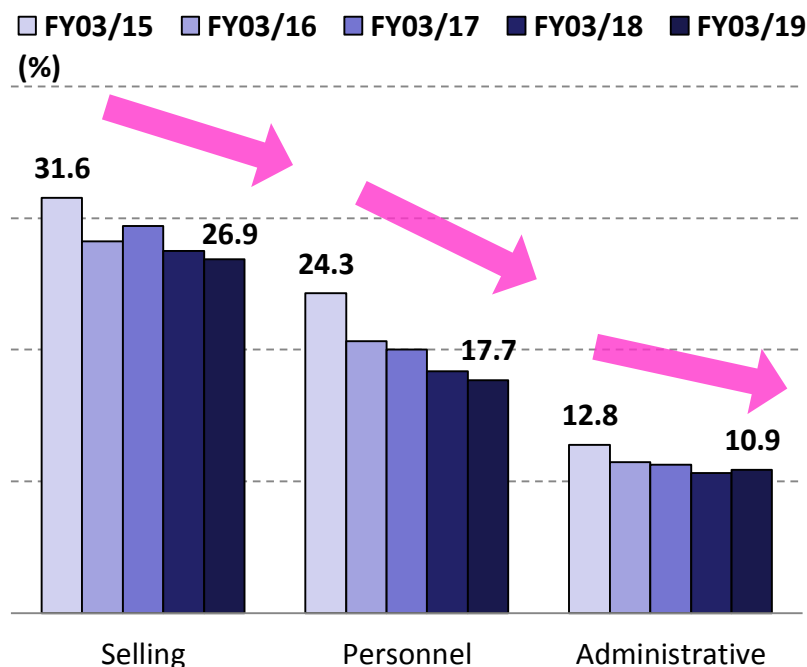
## Cost of Sales Ratio / SG&A Expense Ratio

(1H FY03/2015 - 1H FY03/2019)

Cost of Sales Ratio



SG&A Expense Ratio



## Net Sales by Segment (sales to third parties)

Segment	1H FY03/2018	1H FY03/2019	YoY change (million yen)	YoY change (%)	Share (%)	
	Amount (million yen)	Amount (million yen)			1H FY03/2018	1H FY03/2019
Cosmetics	107,304	<b>121,461</b>	14,156	13.2	74.2	<b>75.4</b>
Cosmetaries	36,174	<b>38,172</b>	1,998	5.5	25.0	<b>23.7</b>
Other	1,135	<b>1,361</b>	225	19.9	0.8	<b>0.9</b>
Total	144,615	<b>160,996</b>	16,380	11.3	100.0	<b>100.0</b>

## Operating Profit by Segment (before elimination)

Segment	1H FY03/2018	1H FY03/2019	YoY change (million yen)	YoY change (%)	Operating margin (%)	
	Amount (million yen)	Amount (million yen)			1H FY03/2018	1H FY03/2019
Cosmetics	21,675	<b>28,647</b>	6,971	32.2	20.2	<b>23.6</b>
Cosmetaries	3,575	<b>4,152</b>	576	16.1	9.8	<b>10.7</b>
Other	565	<b>745</b>	180	31.8	38.6	<b>43.0</b>
Adjustment	(2,348)	<b>(2,832)</b>	(483)	-	-	-
Total	23,467	<b>30,712</b>	7,245	30.9	16.2	<b>19.1</b>

## Higher sales at all regions. Ratio of overseas sales increased to 26.4%

Area	1H FY03/2018		1H FY03/2019		YoY change (million yen)	YoY change (%)
	Amount (million yen)	Ratio to net sales (%)	Amount (million yen)	Ratio to net sales (%)		
Japan	110,893	76.7	<b>118,541</b>	<b>73.6</b>	7,648	6.9
Asia	15,402	10.6	<b>23,249</b>	<b>14.4</b>	7,847	51.0
North America	16,931	11.7	<b>17,497</b>	<b>10.9</b>	565	3.3
Other	1,388	1.0	<b>1,707</b>	<b>1.1</b>	318	23.0
Total	144,615	100.0	<b>160,996</b>	<b>100.0</b>	16,380	11.3
Overseas sales	33,722	23.3	<b>42,454</b>	<b>26.4</b>	8,732	25.9

Japan: Sales to foreign tourists in Japan: 1H of FY03/2019 = 14.3 billion yen (1H of FY03/2018 = 9.0 billion yen)

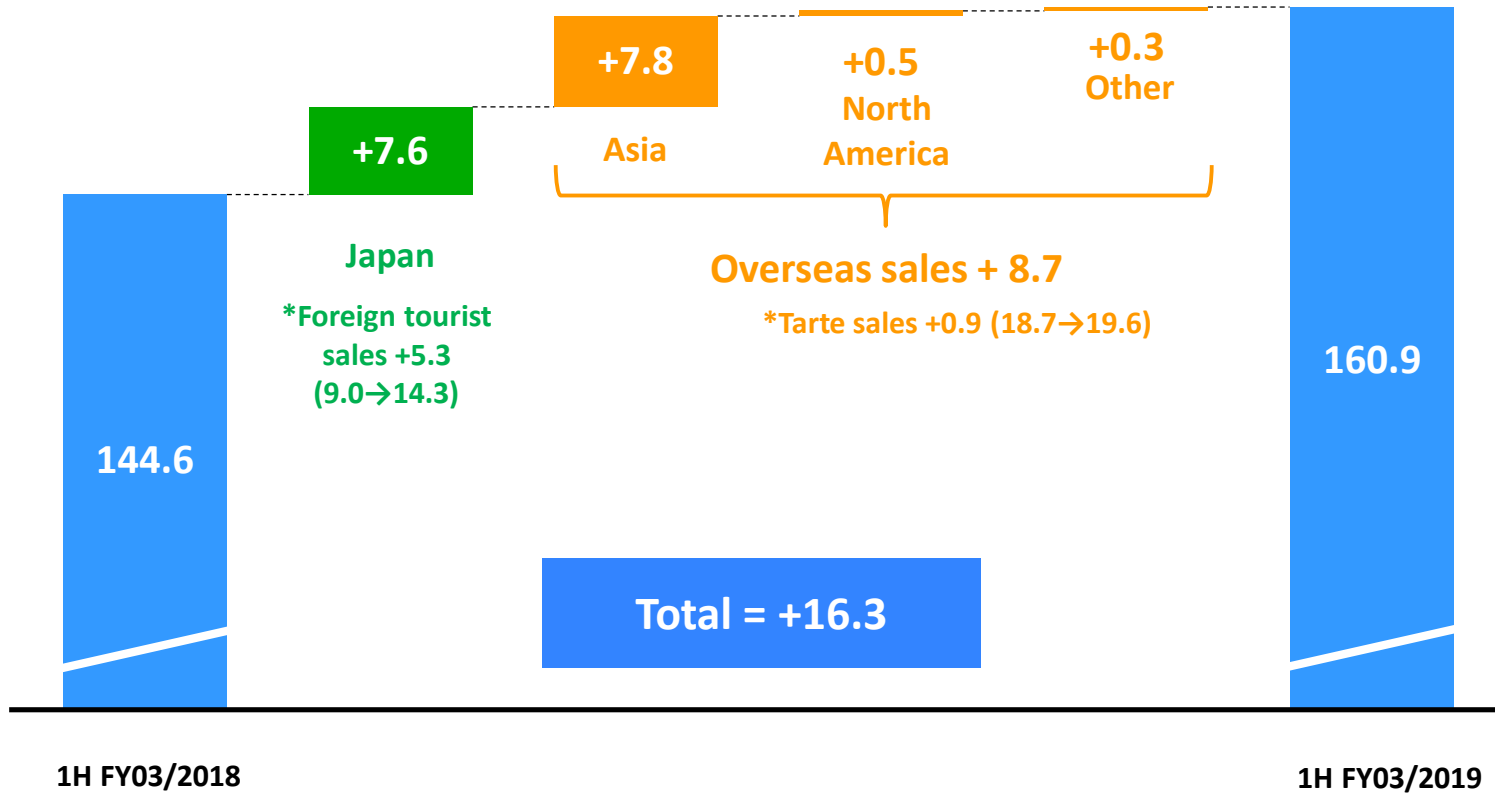
Asia: Higher sales of COSME DECORTE and other brands in China and higher duty-free store sales in South Korea

North America: Tarte Sales: 1H of FY03/2019 = 19.6 billion yen (1H of FY03/2018 = 18.7 billion yen) Note: including sales in Asia and other regions



## Sales increased in all areas

(billion yen)



# Balance Sheet Highlights

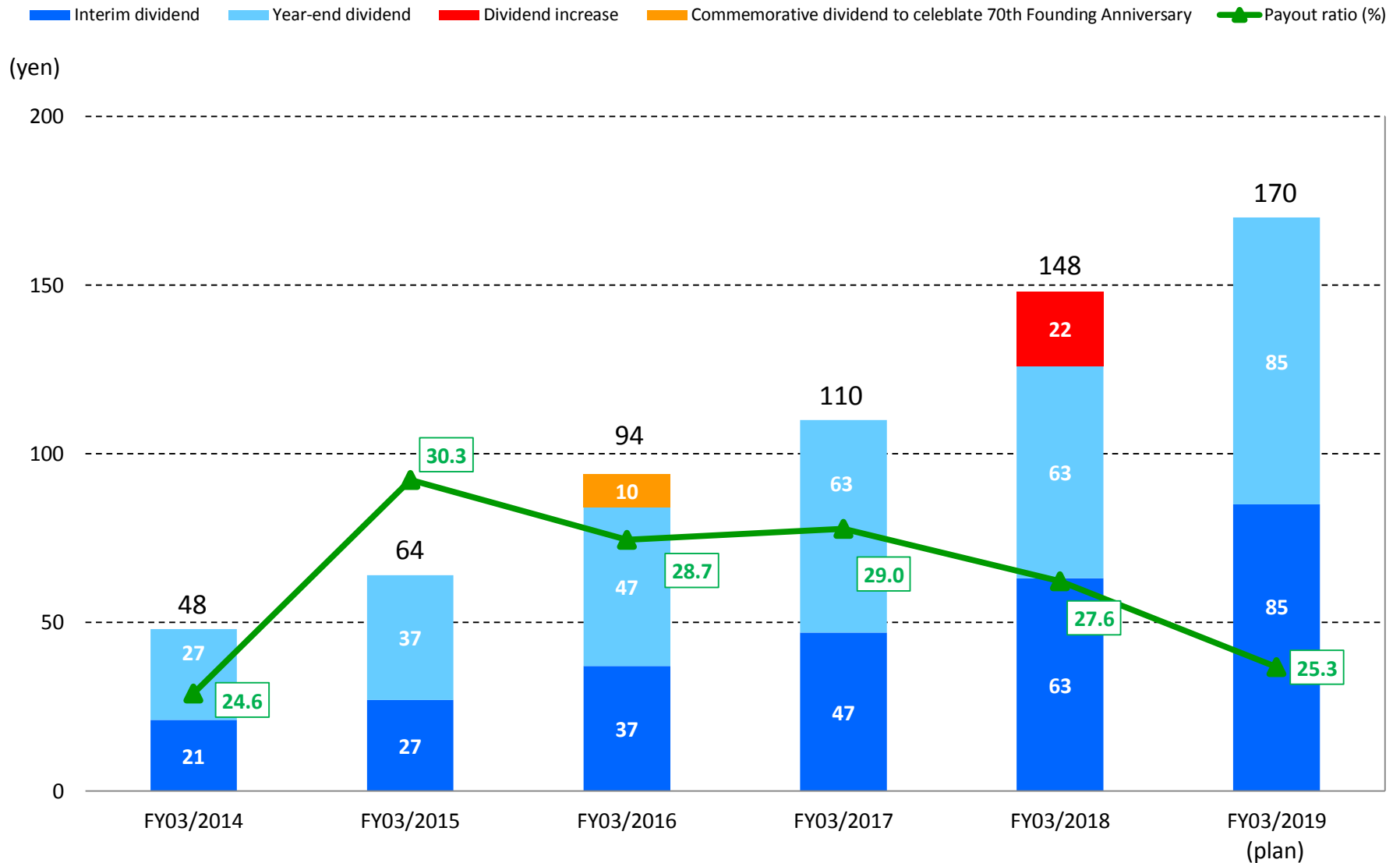
	As of March 31, 2018		As of September 30, 2018		Change
	Amount (million yen)	Share (%)	Amount (million yen)	Share (%)	(million yen)
Current assets	187,119	69.2	<b>197,746</b>	<b>69.6</b>	10,626
Quick assets	133,315	49.3	<b>137,208</b>	<b>48.3</b>	3,892
Inventories	50,939	18.8	<b>57,854</b>	<b>20.4</b>	6,915
Non-current assets	83,250	30.8	<b>86,260</b>	<b>30.4</b>	3,009
Intangible assets	16,383	6.1	<b>15,990</b>	<b>5.6</b>	(393)
Total assets	270,370	100.0	<b>284,006</b>	<b>100.0</b>	13,636
Current liabilities	62,793	23.2	<b>60,101</b>	<b>21.1</b>	(2,692)
Non-current liabilities	8,969	3.3	<b>8,767</b>	<b>3.1</b>	(202)
Total liabilities	71,763	26.5	<b>68,868</b>	<b>24.2</b>	(2,894)
Total net assets	198,607	73.5	<b>215,138</b>	<b>75.8</b>	16,530
Shareholders' equity	184,083	68.1	<b>199,779</b>	<b>70.3</b>	15,695
Total liabilities and net assets	270,370	100.0	<b>284,006</b>	<b>100.0</b>	13,636

# FY03/2019 Forecast (Announced on July 31, 2018)

	FY03/2018		FY03/2019 (forecast)		YoY change (million yen)	YoY change (%)															
	Amount (million yen)	Ratio to net sales (%)	Amount (million yen)	Ratio to net sales (%)																	
Net sales	303,399	100.0	<b>325,000</b>	<b>100.0</b>	21,600	7.1															
<i>Cosmetics</i>	229,603	75.7	<b>248,900</b>	<b>76.6</b>	19,296	8.4															
<i>Cosmetaries</i>	71,323	23.5	<b>73,800</b>	<b>22.7</b>	2,476	3.5															
<i>Other</i>	2,473	0.8	<b>2,300</b>	<b>0.7</b>	(173)	(7.0)															
Operating profit	48,408	16.0	<b>56,000</b>	<b>17.2</b>	7,591	15.7															
Ordinary profit	48,508	16.0	<b>57,400</b>	<b>17.7</b>	8,891	18.3															
Profit attributable to owners of parent	30,611	10.1	<b>38,300</b>	<b>11.8</b>	7,688	25.1															
Net income per share	536.63 yen		<b>671.42 yen</b>		<table border="1"> <thead> <tr> <th colspan="3">Foreign exchange rate</th> </tr> <tr> <th>Currency</th> <th>Actual</th> <th>Estimate</th> </tr> </thead> <tbody> <tr> <td>US dollar/Yen</td> <td>112</td> <td>106</td> </tr> <tr> <td>Taiwan dollar/Yen</td> <td>3.7</td> <td>3.6</td> </tr> <tr> <td>Chinese yuan/Yen</td> <td>16.6</td> <td>16.6</td> </tr> </tbody> </table>		Foreign exchange rate			Currency	Actual	Estimate	US dollar/Yen	112	106	Taiwan dollar/Yen	3.7	3.6	Chinese yuan/Yen	16.6	16.6
Foreign exchange rate																					
Currency	Actual	Estimate																			
US dollar/Yen	112	106																			
Taiwan dollar/Yen	3.7	3.6																			
Chinese yuan/Yen	16.6	16.6																			
Capital expenditure	10,065		<b>14,900</b>																		
Depreciation	6,977		<b>7,800</b>																		

- **Cosmetaries business:** Brand license contract with RIMMEL LONDON will be terminated on October 31, 2018
- **Capital expenditures:** Ordinary investment (mold, corner costs, etc.): 5.0 billion yen  
Realignment of KOSÉ's research laboratories (partially): 1.1 billion yen  
ALBION Kumagaya Plant (partially): 4.6 billion yen

# Dividends / Payout Ratio



## 1. 1H FY03/2019 Results of Operations

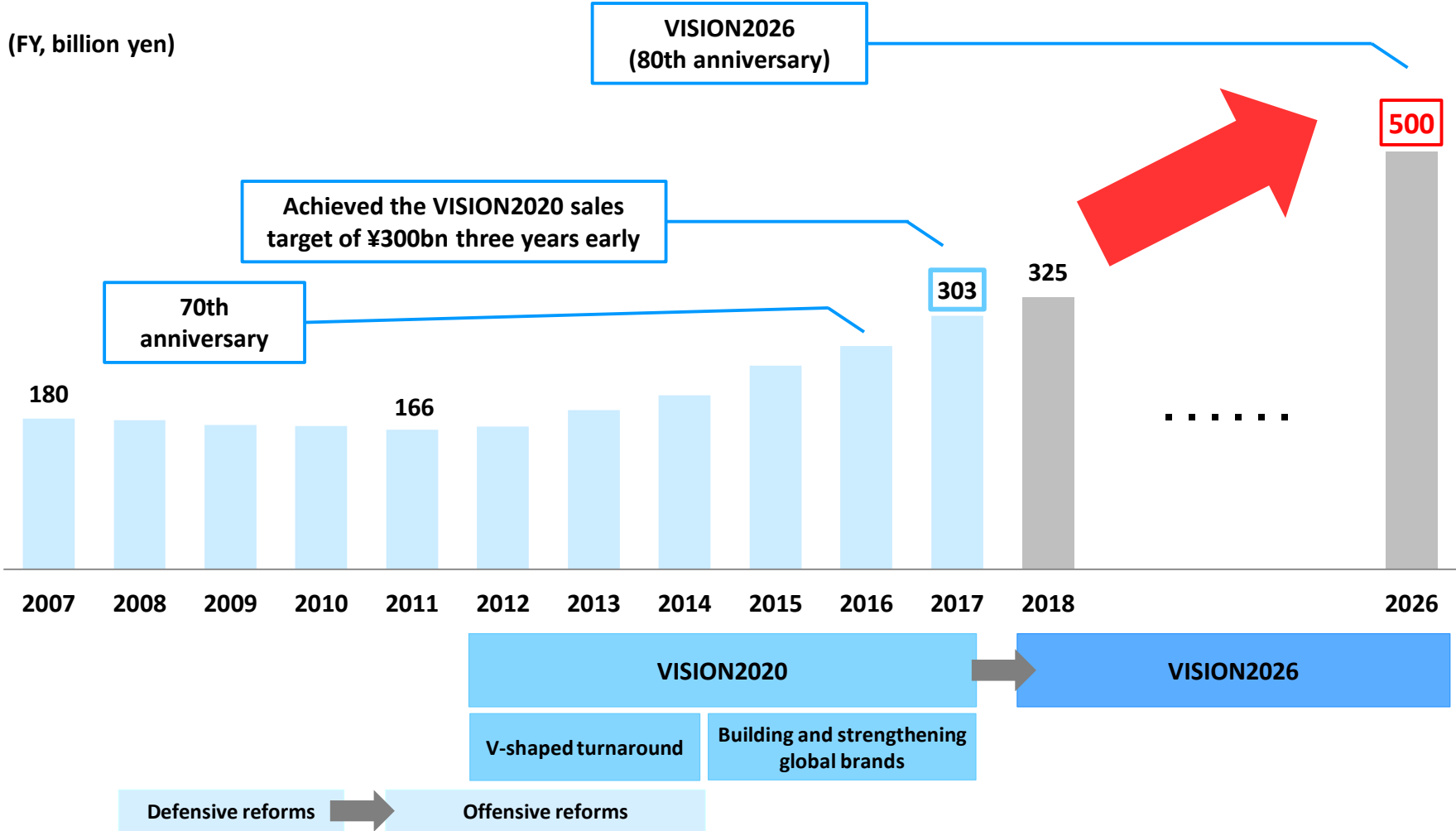
Shinichi Mochizuki, Executive Officer,  
General Manager of Accounting and Finance Dept.

## 2. Key Goals

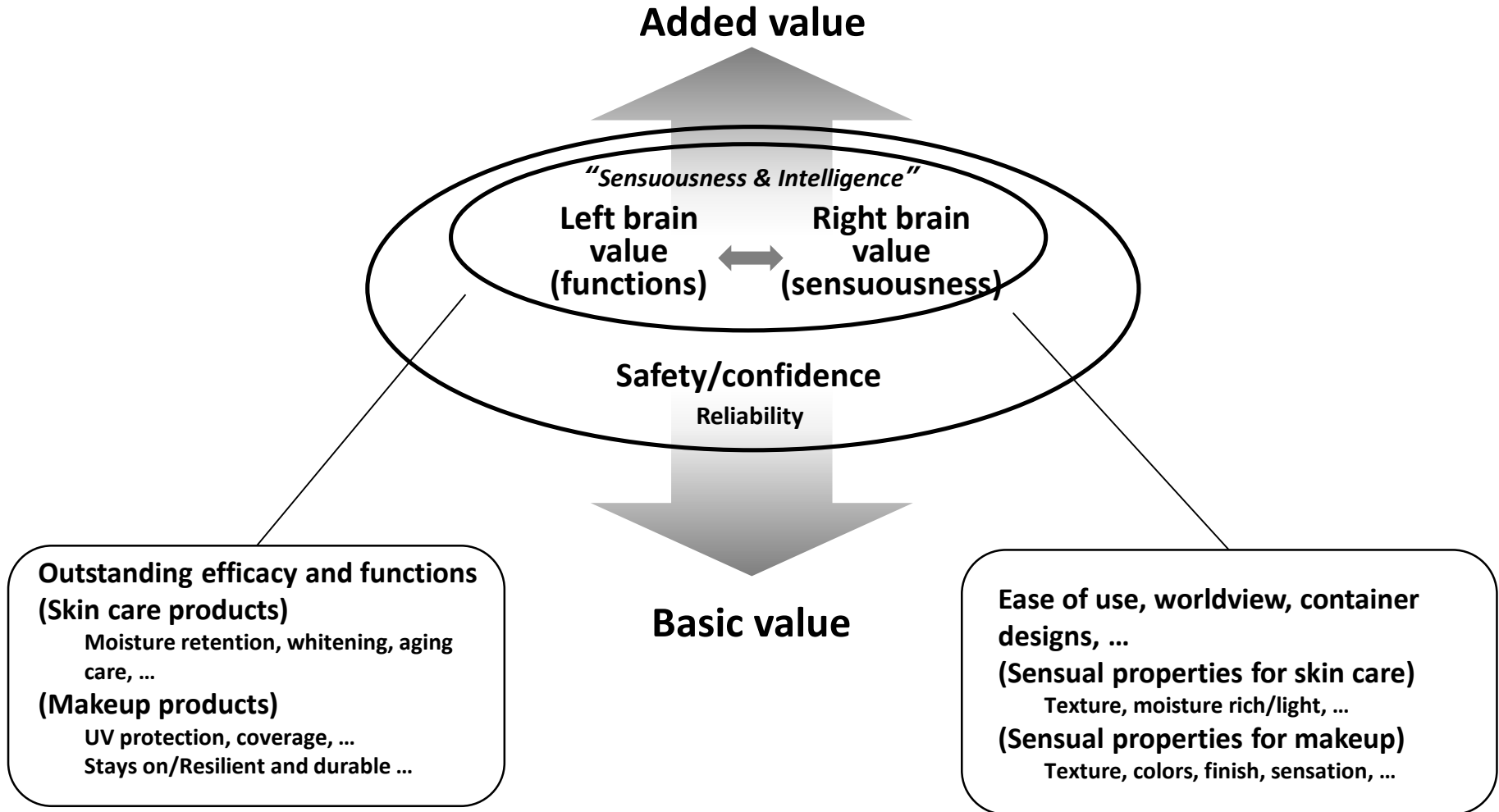
Kazutoshi Kobayashi, President & CEO

## 3. Supplementary Information (Medium-term Management Plan 2020 and VISION2026)

## VISION2026 has started – A new growth strategy leading to our 80th anniversary



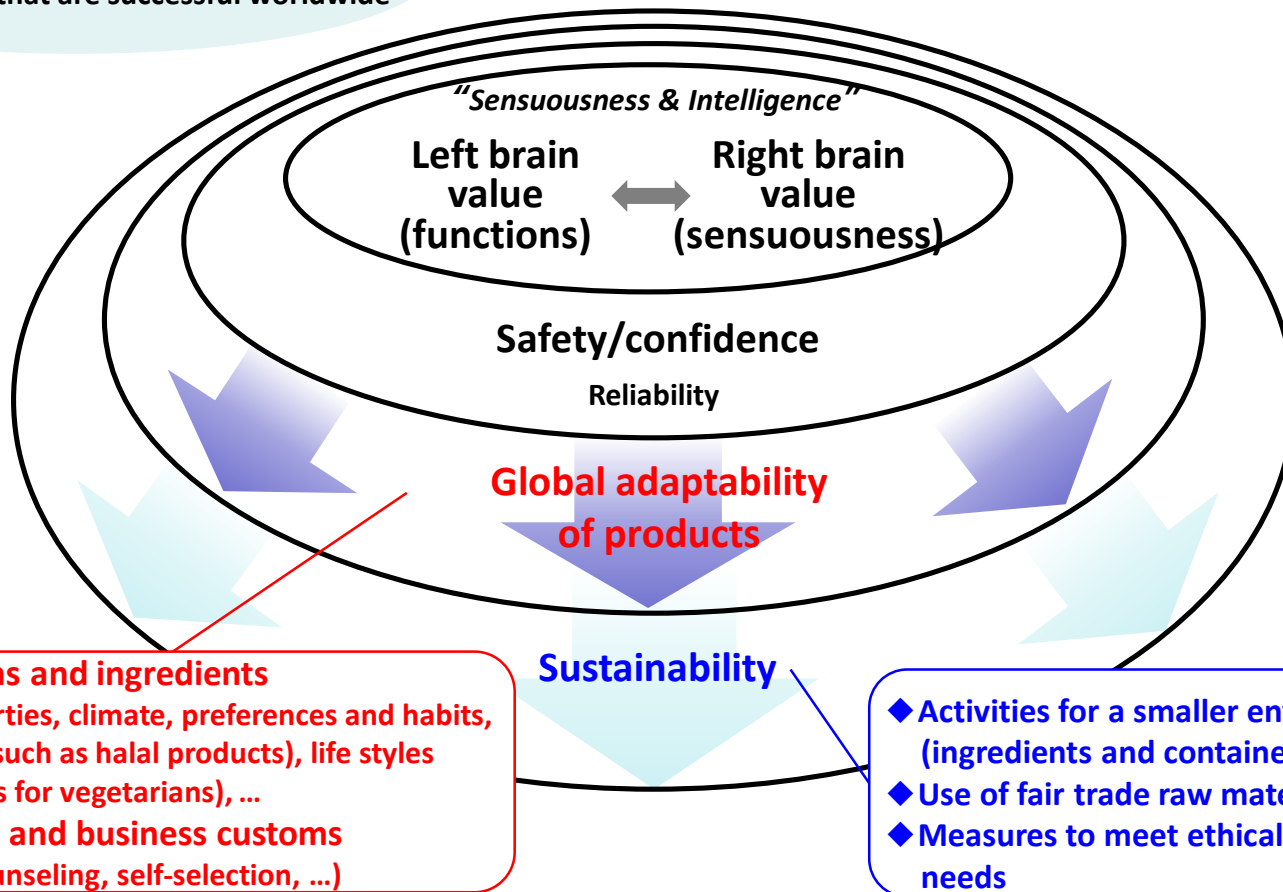
# Priorities were “basic value” and “added value”



# Priorities are “global adaptability” and “sustainability”

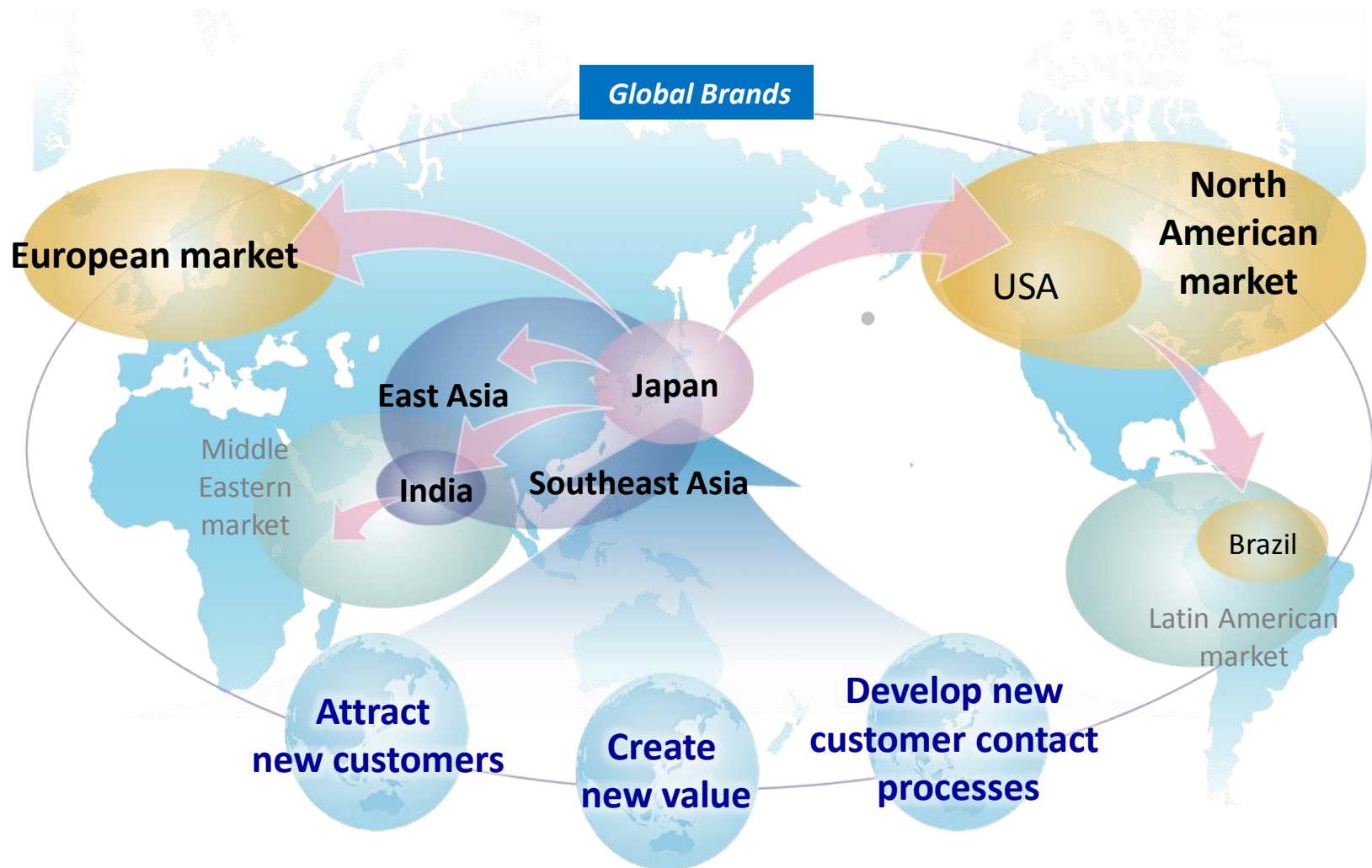
## “Monozukuri 2026”

-For products that are successful worldwide-





# Going beyond brands, regions and channels to attract more customers



## Steady growth in Asia by creating powerful brands and attracting customers

### KOSÉ's Growth in Asia

Year*	Country/Region
1968	Hong Kong
1971	Singapore
1972	Malaysia
1984	Thailand
1984	Taiwan
1987	China
2001	South Korea
2013	India
2014	Indonesia

\*Establishment of subsidiary in each location

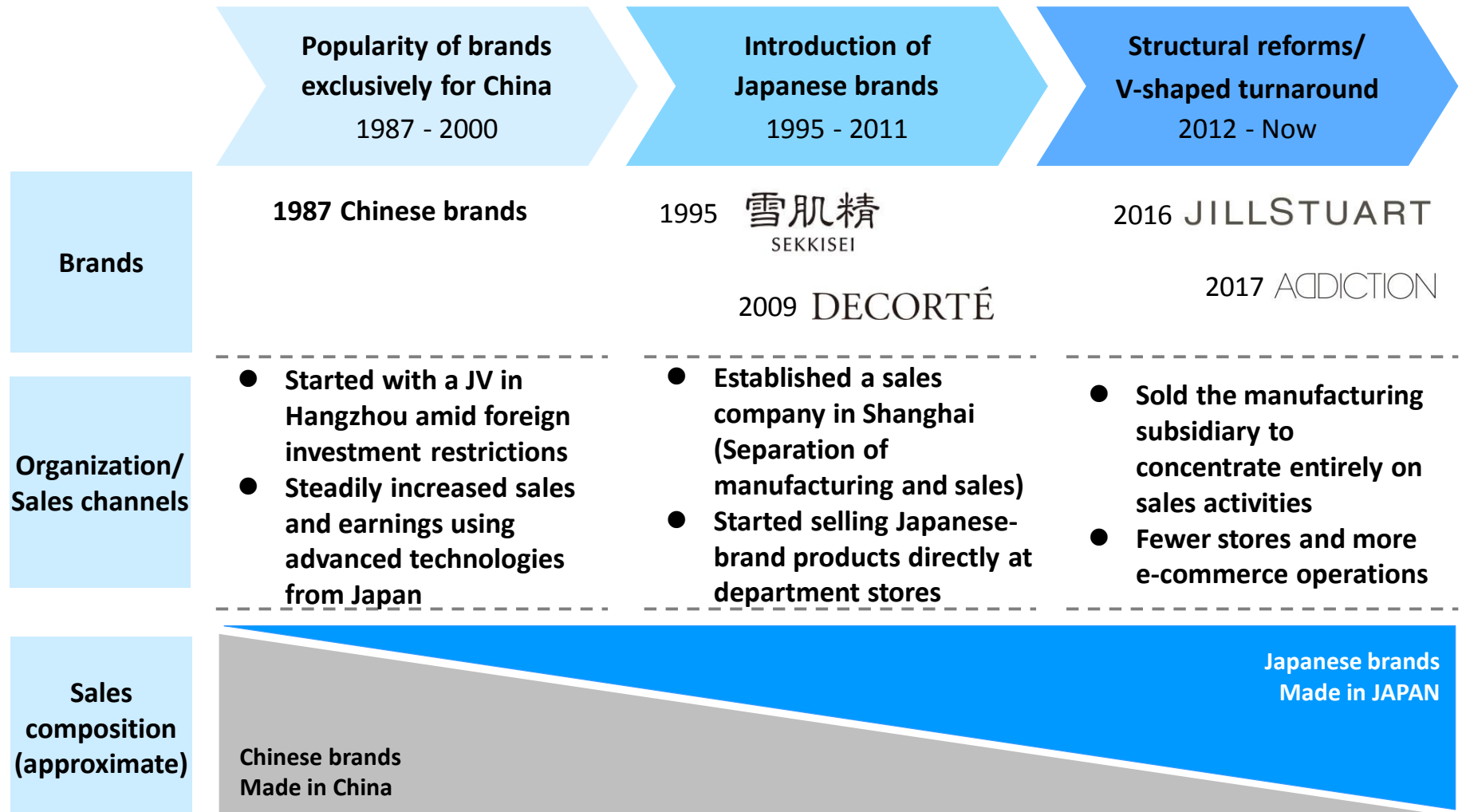


**50 years** of operations in Hong Kong



**30 years** of operations in China

# Growth by adapting with agility and speed to rapid changes in Chinese markets



Established a presence in major U.S./European cities at the forefront of fashion trends

## Sales activities in major cities in Europe and U.S

### COSME DECORTE



**Paris (France)  
2018-**



**New York (U.S.)  
2016-**



**London (U.K.)  
2017-**



**Milan (Italy)  
2012-**

# Speeding up global growth by adding new sales channels

## COSME DECORTE Activities



**The first KOSÉ concept shop in Europe  
Maison KOSÉ (Paris, France)**



**Duty-free store (Sanya, China)**



## Aiming to establish SEKKISEI MYV as a next-generation global brand

### SEKKISEI Activities



**SAVE the BLUE Project enters its 10th year**

#### Japan

Summer: Protection of coral in Okinawa

Winter: Protection of forests in Tohoku

#### Worldwide

Activities in Japan and nine other countries and regions (Different programs and timing in each country)



**SAVE the BLUE Winter Campaign ambassador Takanori Iwata, member of the EXILE/Sandaime J Soul Brothers**



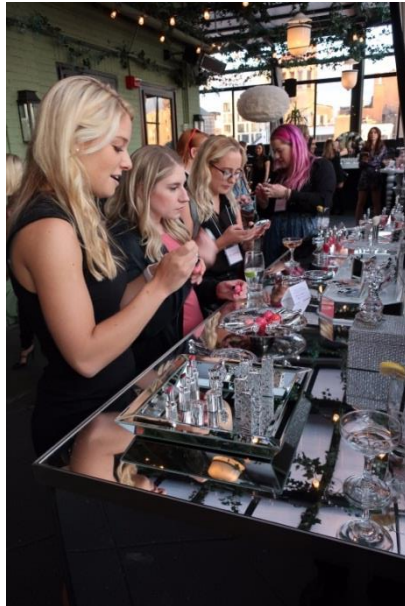
**A global sales counter for SEKKISEI MYV (Shanghai, China)**

# More countries and stores more effective at supporting brands

## JILL STUART Activities



**A U.S. product launch event**



## ADDICTION Activities



**A new sales counter format used in Japan and other countries**

# Retaining the strategy of becoming the leader in targeted categories

## COSMEPORT Activities

### Face washes and cleansing products



**Softymo LACHESCA**  
(Released in August)

### Facial sheet masks



**CLEAR TURN PREMIUM**  
**Royal Gelee Mask**  
(Released in August)

### Hair care products



**SALON STYLE BIOLISS**



# New store formats and multi-national activities to attract more customers

## ALBION Group Activities

New formats  
(specialty store channels)

New sales channels  
(duty-free stores)



**ATELIER ALBION**



**ALBION DRESSER**



**Lotte Duty Free Shop Myeongdong  
Main Store (South Korea)**

# Digital marketing and stepped-up activities for each sales channel

## Tarte Activities

### Sales channels

**Sephora**

- U.S. sales down, Australia/SE Asia sales up
- Sales in Europe will begin in 2019

**ULTA**

- Steady sales growth

**Tarte.com**

- Steady growth continues in the U.S. and other countries

### Social media followers

Channel Overview		
Channel	August 2018	YOY % increase
Instagram	8,435,585	21%
IG Stories	646,266	53%
Facebook	1,548,070	37%
Twitter	796,457	32%
YouTube	272,030	133%
Pinterest	75,689	32%
Snapchat	91,600	N/A
TikTok***	243,200	387%

## Upgrade manufacturing, a key goal of VISION2026

	<u>Until now</u> <u>(VISION2020)</u>	<u>From now on</u> <u>(VISION2026)</u>
<b>Gunma Factory (KOSÉ)</b>	<ul style="list-style-type: none"> <li>● Added a production facility to increase output of high value-added products (2017)</li> <li>● Positioned Gunma as the mother plant for production worldwide</li> <li>● Global production capacity was increased by 30%</li> </ul>	<ul style="list-style-type: none"> <li>● Capital expenditures at the Sayama and Gunma factories to raise output capacity quickly</li> <li>● Assemble a long-term framework for the reliable procurement of raw materials by working closely with suppliers of these materials</li> </ul>
<b>Sayama Factory (KOSÉ)</b>	<ul style="list-style-type: none"> <li>● Relocated some activities in association with completion of a new production facility</li> <li>● At the same time, continued operations to maintain production volume</li> </ul>	<ul style="list-style-type: none"> <li>● Improve quality assurance and productivity by using automation technologies</li> </ul>
<b>Kumagaya Factory (ALBION)</b>	<ul style="list-style-type: none"> <li>● Constructed an equipment storage/employee cafeteria/office building (resulted in a larger production area and better hygiene)</li> <li>● Increased production capacity (automated production lines, cellular manufacturing)</li> </ul>	<ul style="list-style-type: none"> <li>● Started operations at a new distribution facility (2018)</li> <li>● Construction of new production facility (scheduled to be completed in 2020)                             <ul style="list-style-type: none"> <li>→ Increased skin care product output by about 30%</li> <li>→ Raised quality management to the same level as for pharmaceuticals</li> </ul> </li> </ul>

## Establish a more powerful operating framework capable of supporting sustained global growth

### Build a business foundation that is resilient to changes in market conditions (reinforce the organization and recruiting activities)

#### Corporate governance

- Establish the position of Chief Risk Officer
- Increase the number of outside directors from one to two (one man and one woman)

#### An organization structured for global operations

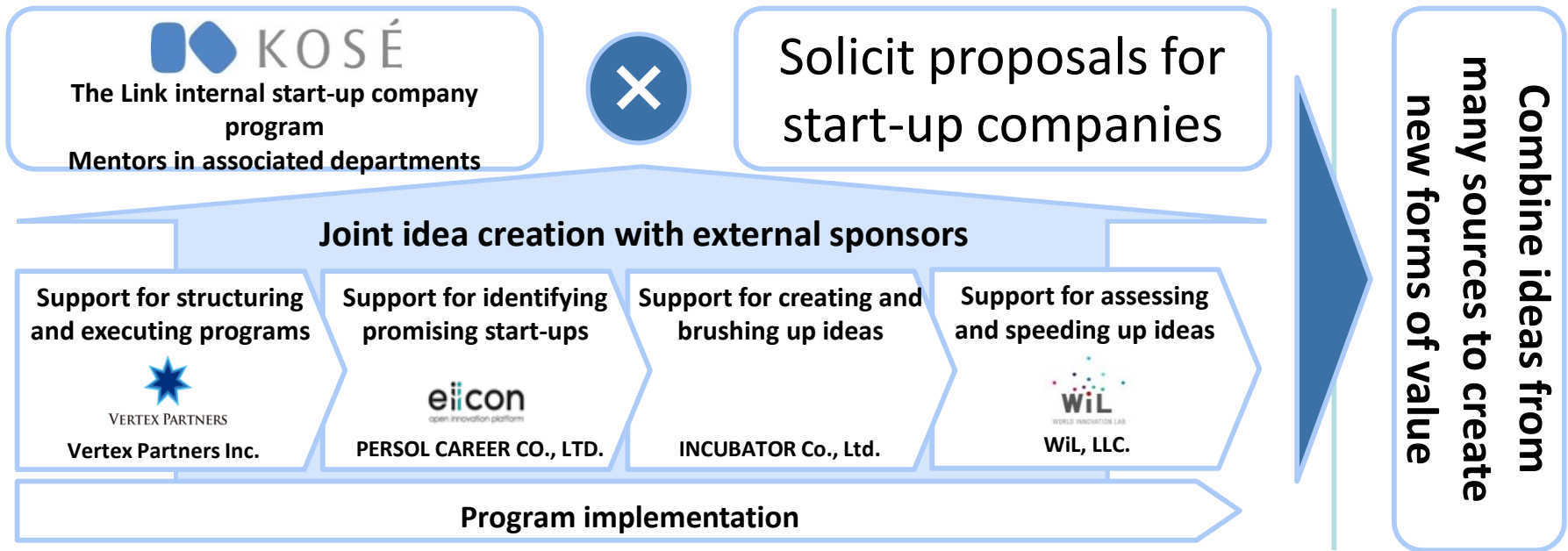
- Established the Marketing Headquarters → A matrix framework for marketing for individual business units and regions
- Established the Digital Marketing Division → Response to shift of marketing activities to digital platforms
- Divided the International Operations Division into two divisions: Asian Business and European and U.S. Business (executives supervising each division are stationed overseas/relocated offices of overseas subsidiaries)

#### Recruiting activities and work environment that reflect the changing business climate

- Recruit people with specialized skills (global, digital and IT personnel)
- Take actions to increase workforce diversity (more use of women and other measures)
- Use working style reforms to improve productivity

# Use open innovation and implement an accelerator program

## Framework for an Innovation Program with KOSÉ and partner companies



## **1. 1H FY03/2019 Results of Operations**

**Shinichi Mochizuki, Executive Officer,  
General Manager of Accounting and Finance Dept.**

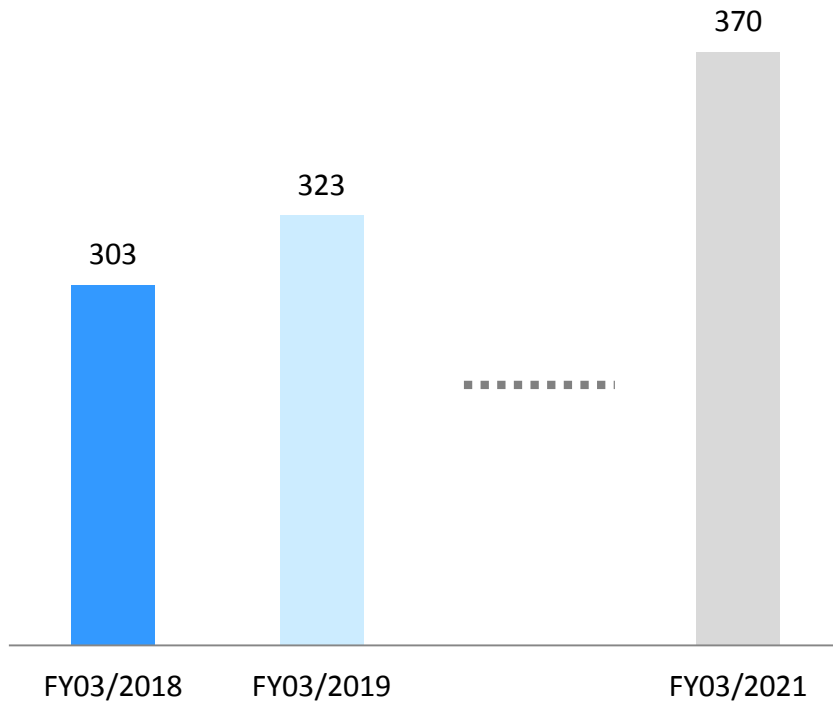
## **2. Key Goals**

**Kazutoshi Kobayashi, President & CEO**

## **3. Supplementary Information (Medium-term Management Plan 2020 and VISION2026)**

## Performance Benchmarks (FY03/2021)

(billion yen)



Performance Benchmarks	
Net sales	¥370 billion
Operating margin	16.2%
ROA	18.0%
ROE	15.0%

Note: We revise the three-year numerical performance targets in our medium-term management plan every fiscal year to take into account progress and respond flexibly to the business environment (rolling method).

*Leverage a powerful business foundation capable of supporting growth in order to achieve global and borderless growth through the greatest possible use of KOSÉ's resources and the constant creation of innovative value.*

## Vision

## Specific initiatives

**Three  
growth  
strategies**

Become a company that is  
appreciated by people  
worldwide

Accelerate globalization of brands

Proactively develop unique products

Explore new growth domains

**Two value  
creation  
vectors**

Become a company able to  
constantly create innovative  
value

Aim for even more personal customer experiences

Focus on unique forms of value by utilizing external  
resources and technologies

**Three  
business  
foundations**

Build a business foundation  
that is resilient to changes in  
market conditions

Build a sound foundation for the company growth

Recruit people who can adapt to changes in market  
conditions

Create an environment that allows people to realize  
their full potential



Focus on five key global brands as the drivers of sustained growth worldwide

DECORTÉ



- Raise share of in-store sales in Japan
- Firmly establish this brand in Asia
- Increase activities in North America and Italy

雪肌精  
SEKKISEI



- Aim for rapid growth in East Asia
- Increase global promotional activities

JILLSTUART



- Make this brand more powerful on a global scale
- Strengthen and expand travel retail operations and measures to add new distribution channels

ADDICTION



- Position ADDICTION as Asia's leading brand for makeup artists
- Quickly start selling ADDICTION products in other countries and establish this brand in overseas markets

CLEAR  
TURN  
クリアターン



- Establish a dominant position in Japan's self-selection cosmetics market
- Target opportunities in other countries where there are good prospects for success

**Global**

**Build stronger brand presences and images globally**

Further reinforce brands in the prestige market sector by using carefully selected and focused investments

**Borderless**

**Constantly increase interaction and deepen ties with borderless customers**

Upgrade marketing strategies that target customers in Greater China, a region with strong consumer spending and a significant influence on other markets

**European market**

- KOSÉ European Branch

Middle Eastern market

African market

**Asian market**

**East Asia**

- KOSÉ COSMETICS CO., LTD. (CHINA)
- KOSÉ COSMETICS SALES (CHINA) CO., LTD.
- KOSÉ (HONG KONG) CO., LTD.
- KOSÉ KOREA CO., LTD.
- TAIWAN KOSÉ CO., LTD.

**Japan**

**India**

- KOSÉ Corporation India Pvt. Ltd.

**Southeast Asia**

- KOSÉ SINGAPORE PTE.LTD.
- KOSÉ (THAILAND) CO. LTD.
- KOSÉ (MALAYSIA) SDN. BHD.
- PT. INDONESIA KOSÉ

**North American market**

**USA**

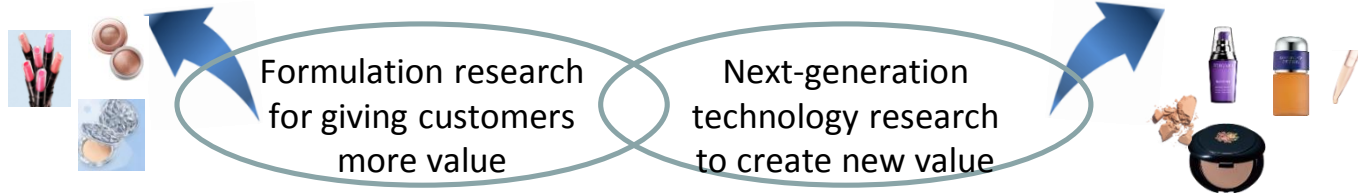
- Tarte, Inc.
- KOSÉ America, Inc.

**Latin American market**

**Brazil**

- KOSÉ BRASIL COMÉRCIO DE COSMÉTICOS LTDA.

An R&D organization that creates products highly appealing to every customer in the world



Consolidate resources for a stronger R&D infrastructure



Advanced Technology Research Center  
(scheduled for completion in March 2019)

Development of technologies for personalized and customized products

Basic research for creating new forms of value

**Advanced dermatology research**

- Advanced dermatology research at the research base in France
- iPS cell/stem cell research

iPS cell research is one activity in France

**Create technologies to make customers' ideal products**

- Research for making plain faces into ideal faces
- Analytical technology research

Example of research project  
Transforming plain faces into ideal faces

**Core technology research for higher quality**

- Quality assurance research
- Analytical technology research

Examples of research projects

**Research for new value in cosmetics**

- Keio University endowed chair
- Joint preventive medicine research with medical institutions

Example of research project  
Skin barriers and allergies



Explore ways to use AI, acquire big data analysis technologies for a data shift

## ■ Build a more powerful manufacturing infrastructure



Rendering of the ALBION Kumagaya Factory building to be completed in 2020

### Initiatives involving scale

Investments to increase output at existing locations

Capital expenditures at the Sayama and Gunma factories to raise output capacity quickly

Establish a reliable procurement infrastructure

Assemble a long-term framework for the reliable procurement of raw materials by working closely with suppliers of these materials

### Initiatives involving quality

More automation and labor saving

Improve quality assurance and productivity by using automation technologies

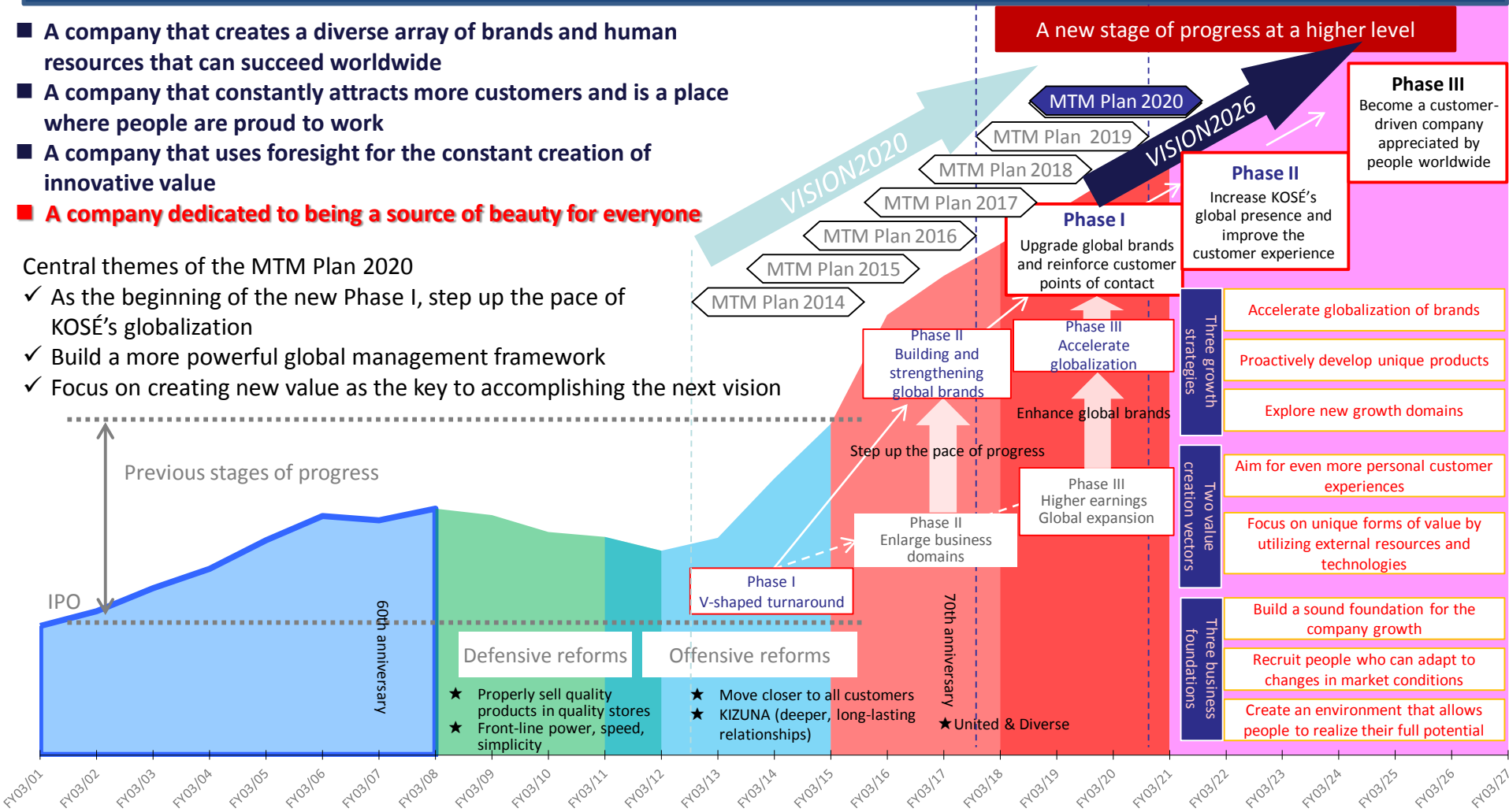


# Become a company with a global presence

- A company that creates a diverse array of brands and human resources that can succeed worldwide
- A company that constantly attracts more customers and is a place where people are proud to work
- A company that uses foresight for the constant creation of innovative value
- **A company dedicated to being a source of beauty for everyone**

## Central themes of the MTM Plan 2020

- ✓ As the beginning of the new Phase I, step up the pace of KOSÉ's globalization
- ✓ Build a more powerful global management framework
- ✓ Focus on creating new value as the key to accomplishing the next vision



## FY03/2027 Performance Targets

### Net Sales

**¥500** billion

(Average annual growth rate of 5.8% or more)

### Operating Margin

**16%** or more

ROA

**18%** or more

ROE

**15%** or more

### Overseas Sales Ratio

—Initiatives to heighten KOSÉ's global presence—

**35%** or more

### E-commerce/New Channel Sales Ratio

—Initiatives to target the increasingly diverse preferences of consumers—

**15%** or more

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