
Results of Operations
Nine Months Ended December 31, 2018



KOSÉ Corporation
January 31, 2019

Record-high sales for the sixth consecutive years and record-high earnings at all levels

| | 1Q-3Q FY03/2018 | | 1Q-3Q FY03/2019 | | YoY change | |
|---|----------------------|------------------------|----------------------|------------------------|---------------|-----------------------|
| | Amount (billion yen) | Ratio to net sales (%) | Amount (billion yen) | Ratio to net sales (%) | (billion yen) | (%) |
| Net sales | 223.5 | 100.0 | 247.8 | 100.0 | +24.3 | +10.9 _{note} |
| Cost of sales | 59.8 | 26.8 | 63.2 | 25.5 | +3.3 | +5.6 |
| SG&A expenses | 124.7 | 55.8 | 138.3 | 55.8 | +13.6 | +11.0 |
| Operating profit | 38.9 | 17.4 | 46.2 | 18.7 | +7.3 | +18.7 |
| Ordinary profit | 39.6 | 17.7 | 47.4 | 19.2 | +7.8 | +19.7 |
| Profit before income taxes | 39.5 | 17.7 | 48.8 | 19.7 | +9.2 | +23.4 |
| Profit attributable to owners of parent | 24.7 | 11.1 | 32.9 | 13.3 | +8.2 | +33.2 |
| Net income per share | 433.44 yen | | 577.28 yen | | +143.84 yen | |

Note: Net sales increased 11.1% YoY after excluding the effects of changes in foreign exchange rates

Net Sales by Segment (sales to third parties)

| Segment | 1Q-3Q FY03/2018 | 1Q-3Q FY03/2019 | YoY change (billion yen) | YoY change (%) | Share (%) | |
|-------------|-------------------------|-------------------------|-----------------------------|-------------------|--------------------|--------------------|
| | Amount (billion yen) | Amount (billion yen) | | | 1Q-3Q FY03/2018 | 1Q-3Q FY03/2019 |
| Cosmetics | 168.6 | 190.5 | +21.8 | +12.9 | 75.5 | 76.9 |
| Cosmetaries | 53.0 | 54.9 | +1.9 | +3.6 | 23.7 | 22.2 |
| Other | 1.7 | 2.3 | +0.5 | +31.9 | 0.8 | 0.9 |
| Total | 223.5 | 247.8 | +24.3 | +10.9 | 100.0 | 100.0 |

Operating Profit by Segment (before elimination)

| Segment | 1Q-3Q FY03/2018 | 1Q-3Q FY03/2019 | YoY change (billion yen) | YoY change (%) | Operating margin (%) | |
|-------------|-------------------------|-------------------------|-----------------------------|-------------------|-------------------------|--------------------|
| | Amount (billion yen) | Amount (billion yen) | | | 1Q-3Q FY03/2018 | 1Q-3Q FY03/2019 |
| Cosmetics | 36.8 | 44.7 | +7.8 | +21.3 | 21.8 | 23.5 |
| Cosmetaries | 4.7 | 4.4 | (0.3) | (6.7) | 8.9 | 7.9 |
| Other | 0.8 | 1.1 | +0.3 | +35.4 | 38.6 | 40.4 |
| Adjustment | (3.4) | (4.0) | (0.5) | - | - | - |
| Total | 38.9 | 46.2 | +7.3 | +18.7 | 17.4 | 18.7 |

Strong sales growth in Japan and Asia

Ratio of overseas sales increased to 26.8%

| Area | 1Q-3Q FY03/2018 ^{note} | | 1Q-3Q FY03/2019 | | YoY change (billion yen) | YoY change (%) |
|----------------|---------------------------------|------------------------------|-------------------------|------------------------------|-----------------------------|-------------------|
| | Amount (billion yen) | Ratio to net sales (%) | Amount (billion yen) | Ratio to net sales (%) | | |
| Japan | 170.5 | 76.3 | 181.3 | 73.2 | +10.8 | +6.3 |
| Asia | 23.8 | 10.7 | 36.7 | 14.8 | +12.8 | +53.8 |
| North America | 27.0 | 12.1 | 27.2 | 11.0 | +0.2 | +0.7 |
| Other | 2.1 | 0.9 | 2.5 | 1.0 | +0.5 | +21.9 |
| Total | 223.5 | 100.0 | 247.8 | 100.0 | +24.3 | +10.9 |
| Overseas sales | 53.0 | 23.7 | 66.5 | 26.8 | +13.5 | +25.5 |

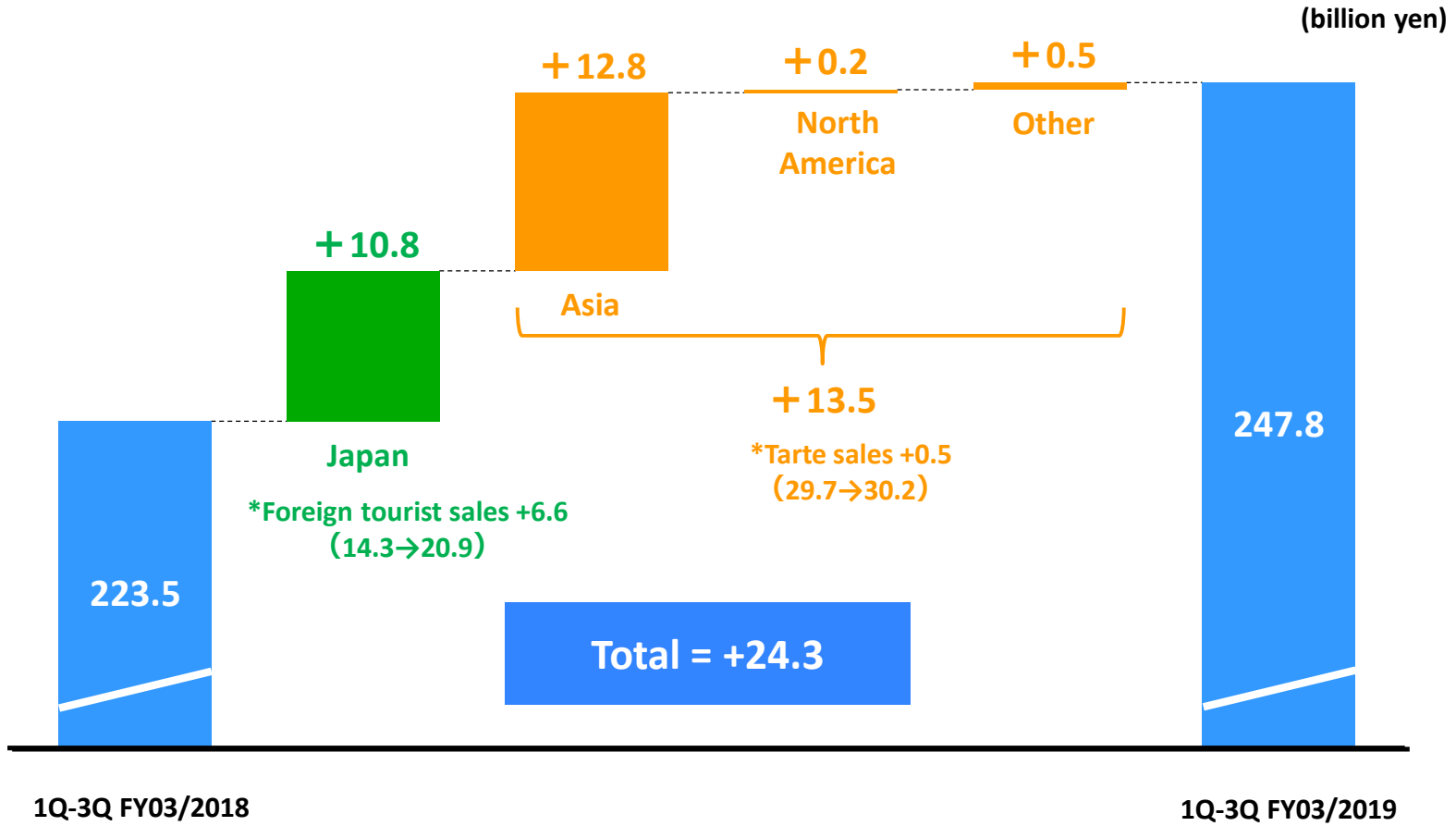
Japan: Sales to foreign tourists in Japan: 1Q-3Q of FY03/2019 = 20.9 billion yen (1Q-3Q of FY03/2018 = 14.3 billion yen)

Asia: Continued growth in e-commerce business in China and higher duty-free store sales in South Korea

North America: Tarte Sales: 1Q-3Q of FY03/2019 = 30.2 billion yen (1Q-3Q of FY03/2018 = 29.7 billion yen)

Note: including sales in Asia and other regions

Japan and Asia were the primary components of sales growth



A strong performance with record-high sales at COSME DECORTE

DECORTÉ

New customers in the skin care, base makeup, point makeup and other core product categories and more growth of sales to foreign tourists in Japan



ALBION

In the key skin care category, higher sales of lotion and emulsion products, two core strengths of ALBION, and measures to strengthen the beauty serum lineup
 • eclairfutur d (Released in October)



tarte
high-performance naturals™

A steady performance in the U.S. amid intense competition and strong sales growth in Europe and Australia



ONE
BY KOSÉ

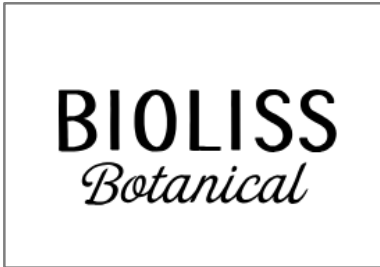
October launch of THE WRINKLESS, a medicated cream for reducing wrinkles, contributed to sales growth



Higher sales of softymo and BIOLISS at KOSÉ COSMEPORT, and VISÉE



<Face washes and cleansing>
A campaign for softymo, a line of face washes and cleansing products contributed to sales growth



<In bath>
Strong sales of SALON STYLE BIOLISS botanical hair care products containing natural and plant-derived ingredients made a big contribution to sales growth



Big contribution to sales growth from eye makeup products
 •Glamorous rich eye palette
 (Released in November for a limited time only)



China and South Korea were the primary components of sales growth in Asia

China



High sales growth rate continuing due to the popularity of COSME DECORTE and SEKKISEI products and strong e-commerce sales growth



South Korea



Consistently high rate of sales growth of key global brands, chiefly COSME DECORTE, at duty-free stores



| | | 1Q-3Q FY03/2018 | | 1Q-3Q FY03/2019 | | YoY change | |
|-------------------------------------|------------------------|-------------------------|---------------------------|-------------------------|---------------------------|---------------|-------|
| | | Amount (billion yen) | Ratio to net sales (%) | Amount (billion yen) | Ratio to net sales (%) | (billion yen) | (%) |
| SG&A expenses | | 124.7 | 55.8 | 138.3 | 55.8 | +13.6 | +11.0 |
| <Significant accounts> | | | | | | | |
| Selling expenses | Advertising | 13.8 | 6.2 | 15.6 | 6.3 | +1.8 | +13.2 |
| | Sales promotion | 39.6 | 17.7 | 43.9 | 17.7 | +4.2 | +10.7 |
| | Freightage and packing | 8.2 | 3.7 | 10.1 | 4.1 | +1.8 | +22.6 |
| Subtotal | | 61.7 | 27.6 | 69.6 | 28.1 | +7.9 | +12.9 |
| General and administrative expenses | Personnel | 39.8 | 17.8 | 42.5 | 17.2 | +2.6 | +6.7 |
| | Depreciation | 2.2 | 1.0 | 2.7 | 1.1 | +0.5 | +23.7 |
| | R&D | 3.8 | 1.7 | 4.0 | 1.6 | +0.1 | +3.8 |
| | Others | 16.9 | 7.6 | 19.3 | 7.8 | +2.3 | +13.9 |
| Subtotal | | 62.9 | 28.2 | 68.6 | 27.7 | +5.7 | +9.1 |

Balance Sheet Highlights

| | As of March 31, 2018 | | As of December 31, 2018 | | Change (billion yen) |
|----------------------------------|-------------------------|--------------|-------------------------|--------------|-------------------------|
| | Amount (billion yen) | Share (%) | Amount (billion yen) | Share (%) | |
| Current assets | 187.1 | 69.2 | 201.2 | 69.9 | +14.0 |
| Quick assets | 133.3 | 49.3 | 135.7 | 47.2 | +2.3 |
| Inventories | 50.9 | 18.8 | 61.9 | 21.5 | +11.0 |
| Non-current assets | 83.2 | 30.8 | 86.4 | 30.1 | +3.2 |
| Intangible assets | 16.3 | 6.1 | 16.0 | 5.6 | (0.3) |
| Total assets | 270.3 | 100.0 | 287.6 | 100.0 | +17.2 |
| Current liabilities | 62.7 | 23.2 | 57.7 | 20.1 | (5.0) |
| Non-current liabilities | 8.9 | 3.3 | 8.4 | 2.9 | (0.5) |
| Total liabilities | 71.7 | 26.5 | 66.1 | 23.0 | (5.6) |
| Total net assets | 198.6 | 73.5 | 221.4 | 77.0 | +22.8 |
| Shareholders' equity | 184.0 | 68.1 | 205.7 | 71.5 | +21.6 |
| Total liabilities and net assets | 270.3 | 100.0 | 287.6 | 100.0 | +17.2 |

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

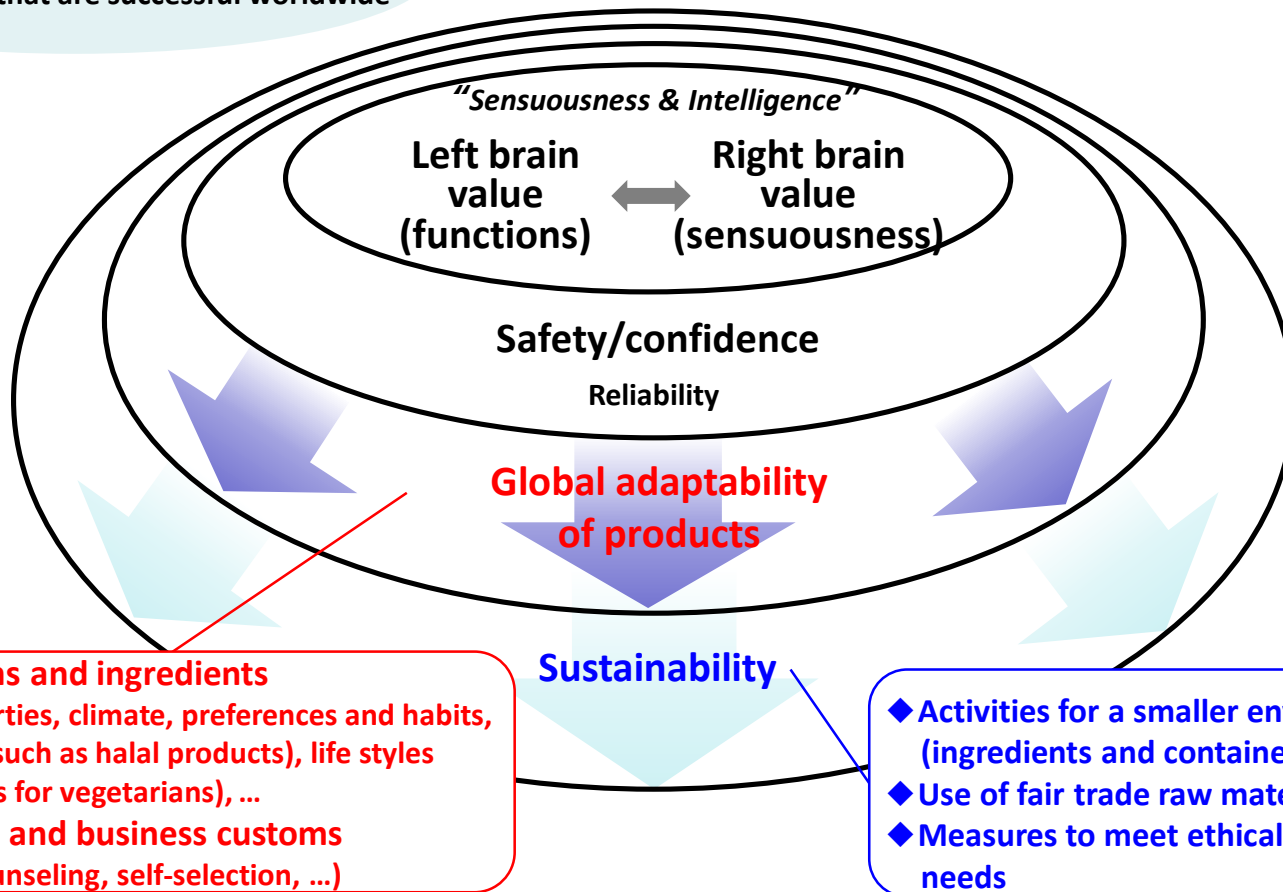
| | FY03/2018 | | FY03/2019 (forecast) | | YoY change (billion yen) | YoY change (%) | | | | | | | | | | | | | | | |
|---|-------------------------|---------------------------|-------------------------|---------------------------|---|----------------------|-----------------------|--|--|----------|--------|----------|---------------|-----|-----|-------------------|-----|-----|------------------|------|------|
| | Amount (billion yen) | Ratio to net sales (%) | Amount (billion yen) | Ratio to net sales (%) | | | | | | | | | | | | | | | | | |
| Net sales | 303.3 | 100.0 | 325.0 | 100.0 | +21.6 | +7.1 | | | | | | | | | | | | | | | |
| <i>Cosmetics</i> | 229.6 | 75.7 | 248.9 | 76.6 | +19.2 | +8.4 | | | | | | | | | | | | | | | |
| <i>Cosmetaries</i> | 71.3 | 23.5 | 73.8 | 22.7 | +2.4 | +3.5 | | | | | | | | | | | | | | | |
| <i>Other</i> | 2.4 | 0.8 | 2.3 | 0.7 | (0.1) | (7.0) | | | | | | | | | | | | | | | |
| Operating profit | 48.4 | 16.0 | 56.0 | 17.2 | +7.5 | +15.7 | | | | | | | | | | | | | | | |
| Ordinary profit | 48.5 | 16.0 | 57.4 | 17.7 | +8.8 | +18.3 | | | | | | | | | | | | | | | |
| Profit attributable to owners of parent | 30.6 | 10.1 | 38.3 | 11.8 | +7.6 | +25.1 | | | | | | | | | | | | | | | |
| Net income per share | 536.63 yen | | 671.42 yen | | <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 | 100 | | 149 | | | | | | | | | | | | | | | | | | |
| Depreciation | 69 | | 78 | | | | | | | | | | | | | | | | | | |

- **Cosmetaries business:** Brand license contract with RIMMEL LONDON was 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

Priorities are “global adaptability” and “sustainability”

“Monozukuri 2026”

-For products that are successful worldwide-



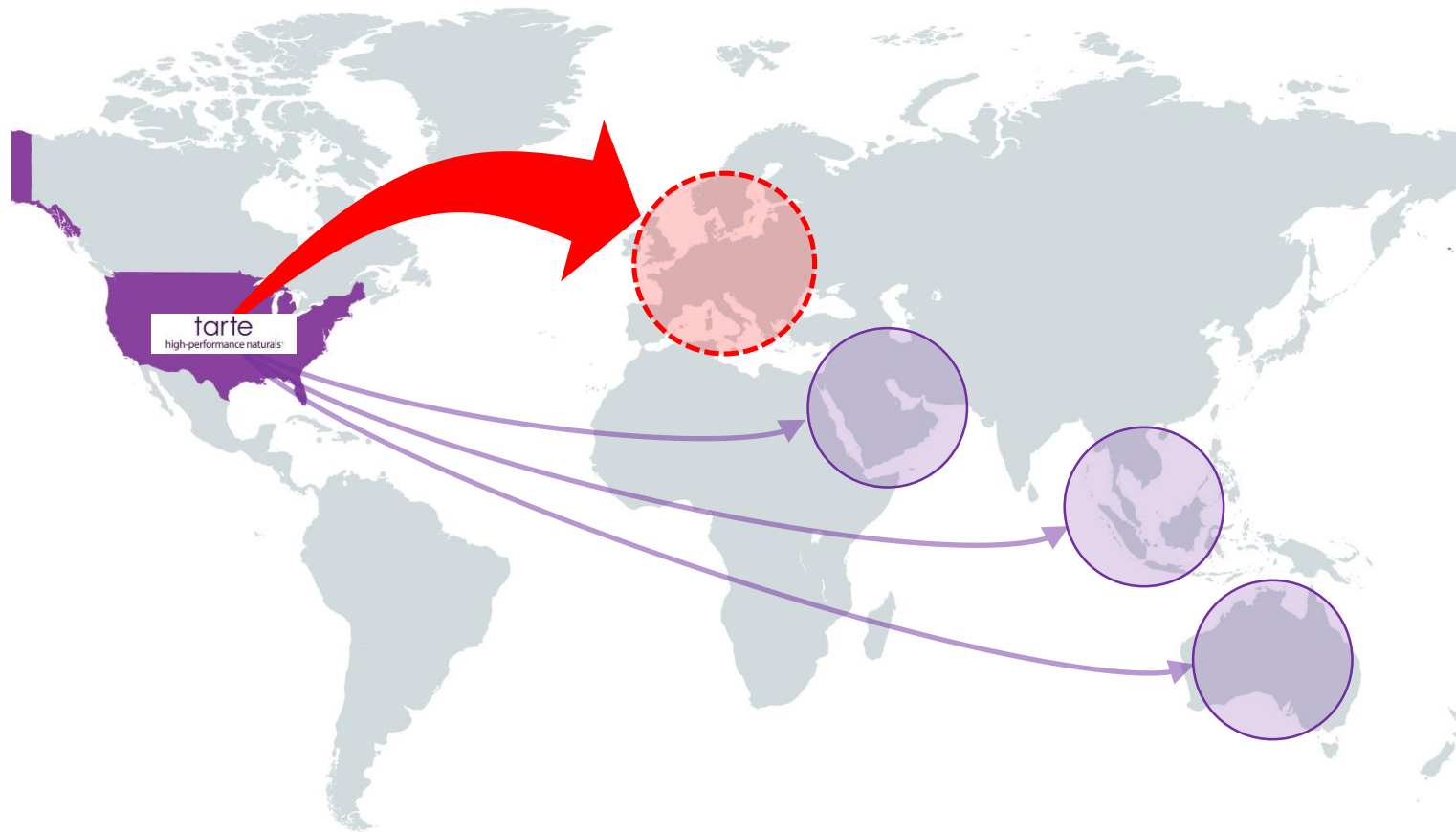
Supplementary Information (1)

Topics in the Fourth Quarter of FY03/2019



Scheduled for completion in March 2019
Advanced Technology Research Center (Oji, Kita-ku, Tokyo)

tarte
high-performance naturals™



**A Sephora France media event (December 2018)
Sephora will begin selling Tarte products in Europe in 2019.**

DECORTÉ



Released on January 16, 2019
COSME DECORTE
New face powder
(2 products and 7 product types)



Released on January 16, 2019
COSME DECORTE AQ
Cream absolute X
(1 products and 1 product types)



To be released on March 16, 2019
COSME DECORTE AQ
New base makeup products
(11 products and 26 product types)

ALBION



To be released on February 18, 2019
WHITENISTA FOUNDATION
(Medicated whitening foundation)

ESPRIQUE



To be released on February 16, 2019

ESPRIQUE

New base makeup series

(4 products and 16 product types)

ONE
BY KOSÉ



To be released on April 16, 2019

ONE BY KOSÉ

BALANCING TUNER (quasi-drug)

**(Oil control lotion containing the active ingredient
Rice Powder® No. 6)**

KOSÉ
COSMEPORT



Released on January 10, 2019
Je l'aime Relax line
(9 products and 18 product types)



To be released on February 1, 2019
SUNCUT®
New products
(10 products and 13 product types)

KOSÉ *Beauty Festa 2019*

Supported by @cosme

All your favorite KOSÉ brands!

Experience the latest trends in cosmetics and receive samples!

KOSÉ is holding this special event throughout Japan!

NAGOYA

Mar. 8 (Fri.) – Mar. 10 (Sun.), 2019
JR Gate Tower 1F and Nagoya station

[MORE >](#)



KOSÉ Beauty Festa in Fukuoka
(September 2017)

March 8-10, 2019

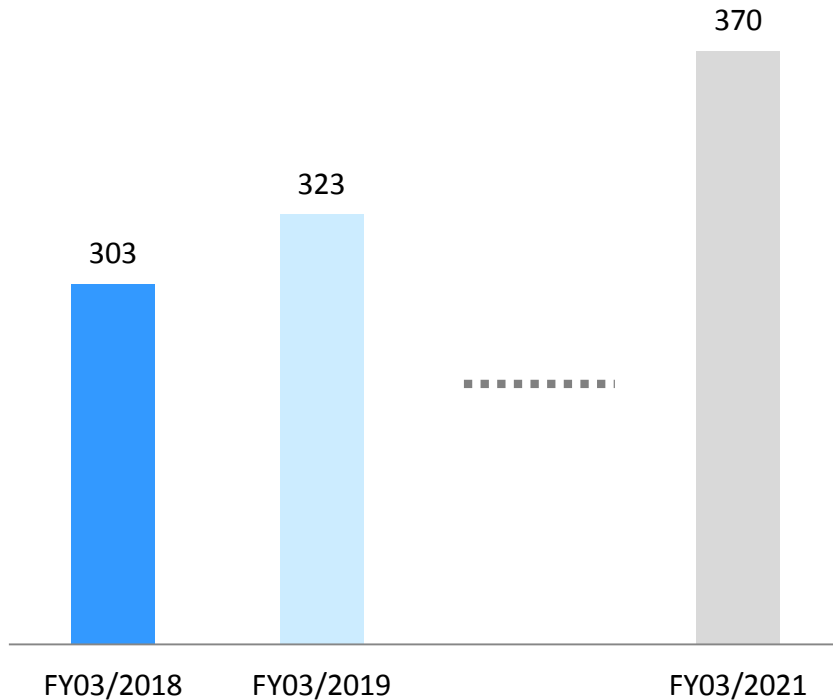
KOSÉ Beauty Festa 2019 in Nagoya

Supplementary Information (2)

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

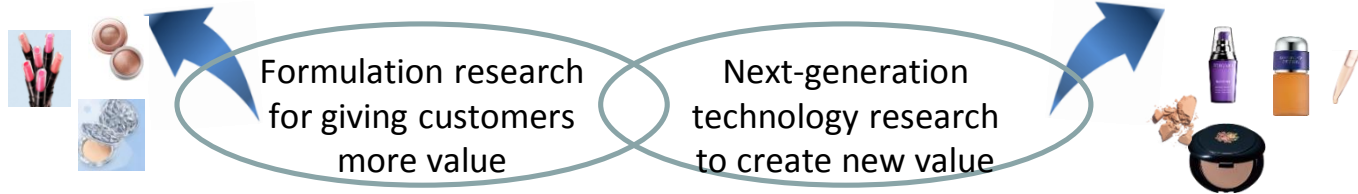
- Tarte, Inc.
- KOSÉ America, Inc.

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

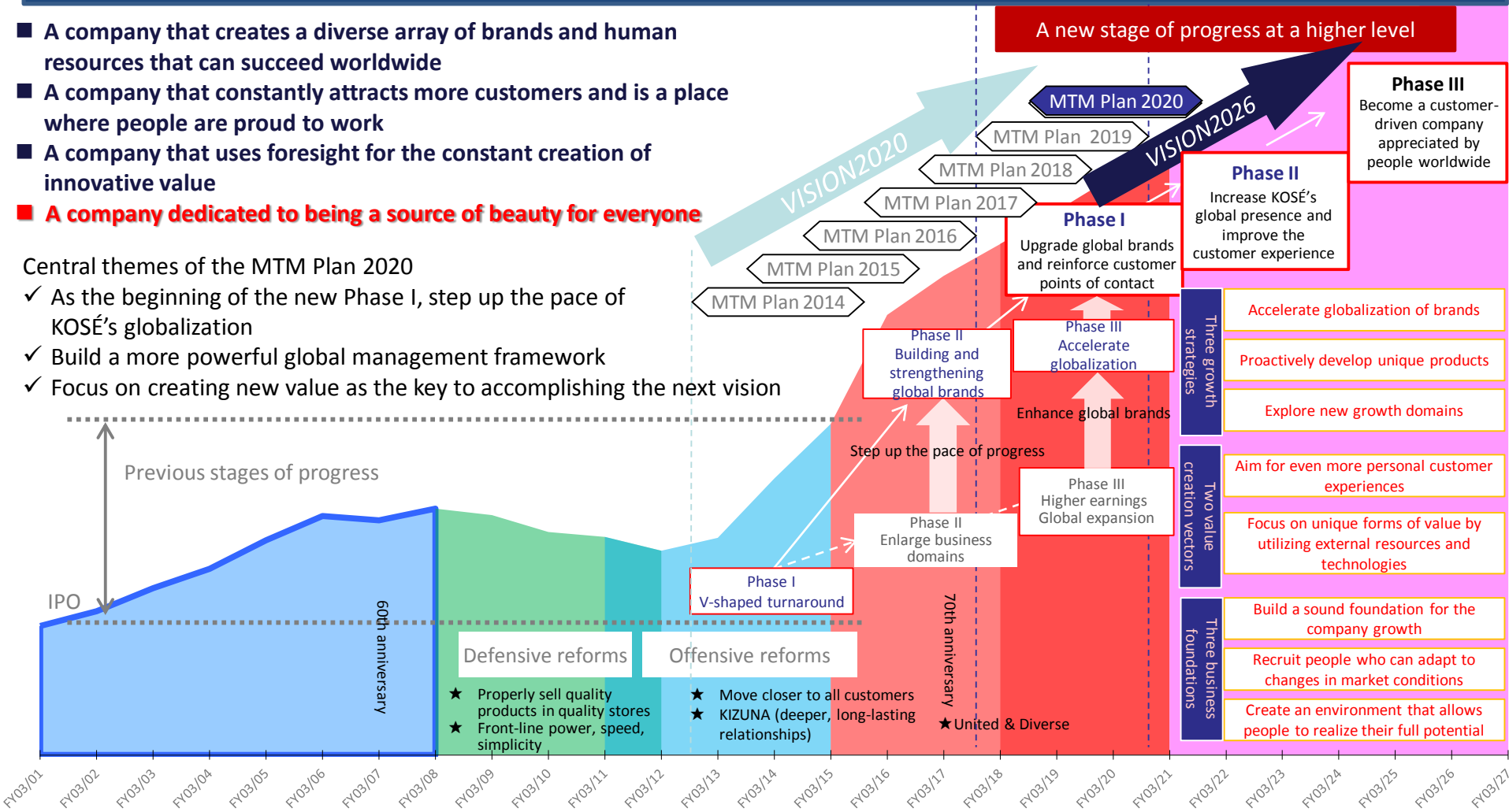
Improve quality assurance and productivity by using automation technologies

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

These materials include estimates on the basis of the outlook on the future and plans as of January 31, 2019, but are not promises by KOSÉ Corporation regarding future performance. Actual results may differ from these forecasts due to risks associated with economic trends and other items as well as to other uncertainties. KOSÉ Corporation accepts no responsibility whatsoever with regard to any possible mistakes, missing information and other errors in the data and text in these materials.

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