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**Results of Operations**  
**Three Months Ended June 30, 2019**

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KOSÉ Corporation

July 31, 2019

## Record-high sales for the sixth consecutive year (Expenses for aggressive marketing activities caused earnings to decrease)

	1Q FY03/2019		1Q FY03/2020		YoY change	
	Amount (billion yen)	Ratio to net sales (%)	Amount (billion yen)	Ratio to net sales (%)	(billion yen)	(%)
Net sales	80.4	100.0	<b>81.7</b>	<b>100.0</b>	+1.2	*note +1.6
Cost of sales	19.3	24.1	<b>20.3</b>	<b>24.9</b>	+0.9	+4.9
SG&A expenses	43.5	54.0	<b>48.0</b>	<b>58.8</b>	+4.5	+10.5
Operating profit	17.5	21.9	<b>13.3</b>	<b>16.3</b>	(4.2)	(24.2)
Ordinary profit	18.6	23.2	<b>13.0</b>	<b>15.9</b>	(5.6)	(30.4)
Profit before income taxes	19.5	24.3	<b>12.8</b>	<b>15.8</b>	(6.6)	(34.2)
Profit attributable to owners of parent	13.3	16.6	<b>8.4</b>	<b>10.3</b>	(4.9)	(37.1)
Net income per share	234.79 yen		<b>147.62 yen</b>		(87.17) yen	

Note: Net sales increased 1.8% YoY after excluding the effects of changes in foreign exchange rates

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

Segment	1Q FY03/2019	1Q FY03/2020	YoY change (billion yen)	YoY change (%)	Share (%)	
	Amount (billion yen)	Amount (billion yen)			1Q FY03/2019	1Q FY03/2020
Cosmetics	61.7	<b>64.1</b>	+2.4	+3.9	76.7	<b>78.5</b>
Cosmetaries	18.1	<b>16.6</b>	(1.4)	(8.1)	22.5	<b>20.4</b>
Other	0.6	<b>0.9</b>	+0.3	+49.3	0.8	<b>1.1</b>
Total	80.4	<b>81.7</b>	+1.2	+1.6	100.0	<b>100.0</b>

## Operating Profit by Segment (before elimination)

Segment	1Q FY03/2019	1Q FY03/2020	YoY change (billion yen)	YoY change (%)	Operating margin (%)	
	Amount (billion yen)	Amount (billion yen)			1Q FY03/2019	1Q FY03/2020
Cosmetics	17.1	<b>15.6</b>	(1.4)	(8.5)	27.8	<b>24.4</b>
Cosmetaries	1.4	<b>(1.2)</b>	(2.6)	-	7.7	<b>(7.2)</b>
Other	0.3	<b>0.2</b>	(0.0)	(22.2)	41.7	<b>25.1</b>
Adjustment	(1.3)	<b>(1.4)</b>	(0.1)	-	-	-
Total	17.5	<b>13.3</b>	(4.2)	(24.2)	21.9	<b>16.3</b>

## Strong sales growth in Asia Ratio of overseas sales increased to 30.8%

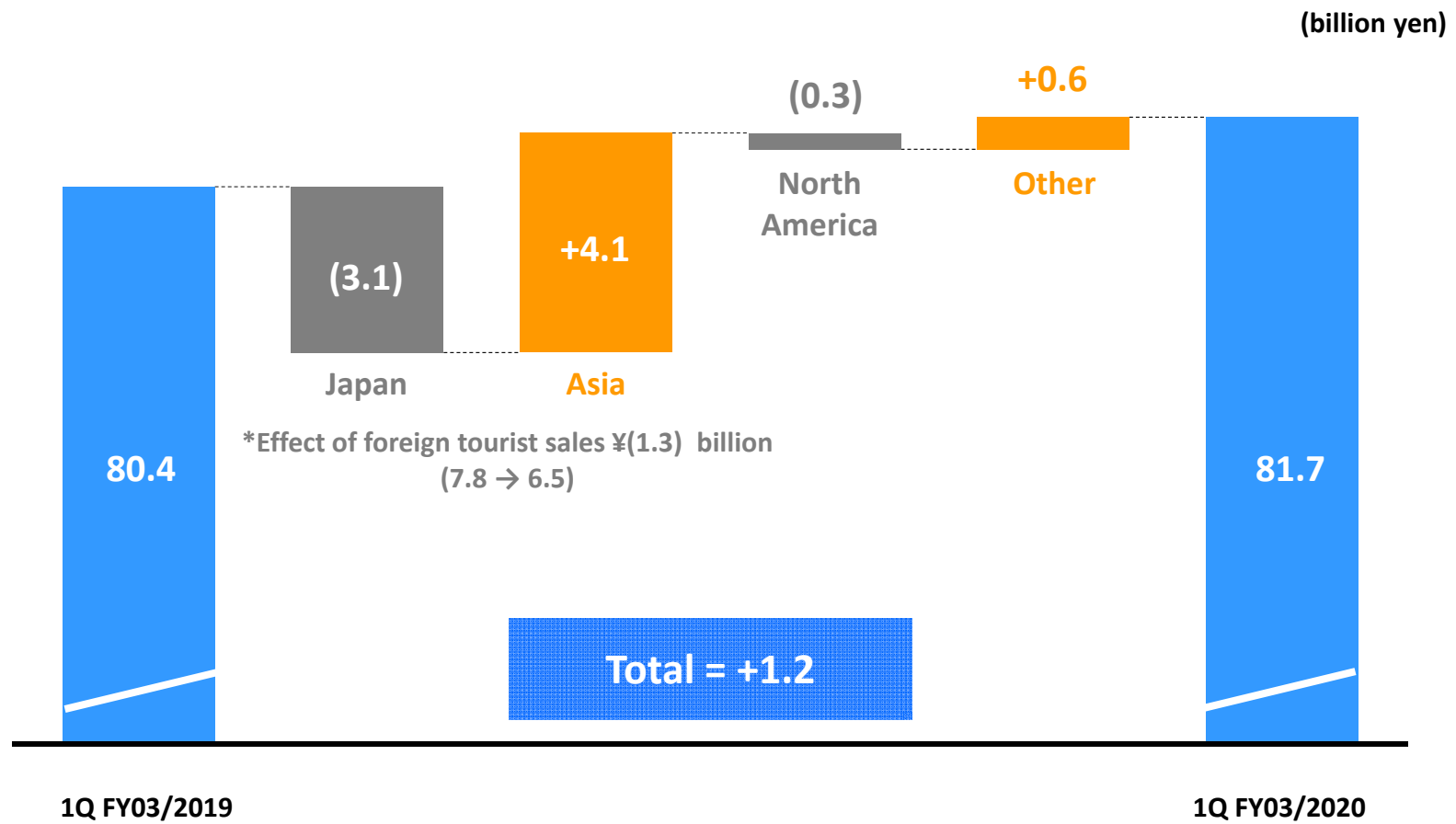
Area	1Q FY03/2019		1Q FY03/2020		YoY change (billion yen)	YoY change (%)
	Amount (billion yen)	Ratio to net sales (%)	Amount (billion yen)	Ratio to net sales (%)		
Japan	59.7	74.2	56.5	69.2	(3.1)	(5.3)
Asia	10.7	13.4	14.8	18.2	+4.1	+38.4
North America	9.0	11.3	8.7	10.7	(0.3)	(4.1)
Other	0.9	1.1	1.5	1.9	+0.6	+67.6
Total	80.4	100.0	81.7	100.0	+1.2	+1.6
Overseas sales	20.7	25.8	25.1	30.8	+4.3	+21.1

Japan: Sales to foreign tourists in Japan: 1Q of FY03/2020 = ¥6.5 billion (1Q of FY03/2019 = ¥7.8 billion)

Asia: Higher duty-free store sales in South Korea and continued rapid growth in e-commerce business in China

North America: Tarte sales: 1Q of FY03/2020 = ¥10.3 billion (1Q of FY03/2019 = ¥10.3 billion) ※ Including sales in Asia and other regions

## Sales in Asia increased significantly



# DECORTÉ drives overall sales growth (No change in ALBION Group and Tarte sales)



**Higher global sales due to an increase in overseas sales, chiefly in Asia**



**No change in sales from one year earlier**  
**ALBION launched the Skin Conditioner Essential 45th Anniversary Coffret (May)**



**No change in sales from one year earlier**  
**Tarte launched the new Sugar Rush brand (February)**  
**Sephora started selling Tarte products in Europe (March)**



## Products and promotional activities to attract more customers



**@cosme Best Cosmetic Award 2019**  
**First Place, Best Powder Foundation**  
**First Half Best New Cosmetics**  
**Synchro Fit Pact UV**



**Marketing activities in Japan and other countries**  
**using figure skater Yuzuru Hanyu as an**  
**ambassador**



**Launched the medicated oil control lotion**  
**BALANCING TUNER (April)**



# Products and promotional activities to attract more customers



**Meeting customers' needs with a broad lineup of products**

All SUNCUT products meet Japan's highest standards for UV protection (SPF50+ PA++++)



**Started selling Beautiful Skin Artisan series masks in large boxes containing 30 sheets (April)**

Coix Seed Mask and Sake Mask



**Held the Visée 25th Birthday Bash for this brand (May)**

This special event featured booths where visitors could try new products and other activities and information





# Aggressive promotional activities to raise awareness of KOSÉ brands

DECORTÉ Sakura Campaign



SEKKISEI MYV ACTIRISE Promotion



# SG&A Expenses



		1Q FY03/2019		1Q FY03/2020		YoY change	
		Amount (billion yen)	Ratio to net sales (%)	Amount (billion yen)	Ratio to net sales (%)	(billion yen)	(%)
SG&A expenses		43.5	54.0	<b>48.0</b>	<b>58.8</b>	+4.5	+10.5
<Significant accounts>							
Selling expenses	Advertising	4.2	5.3	<b>5.6</b>	<b>6.9</b>	+1.3	+31.6
	Sales promotion	13.2	16.5	<b>14.9</b>	<b>18.3</b>	+1.6	+12.7
	Freightage and packing	3.2	4.0	<b>3.5</b>	<b>4.3</b>	+0.2	+9.1
Subtotal		20.8	25.9	<b>24.1</b>	<b>29.6</b>	+3.3	+16.0
General and administrative expenses	Personnel	14.0	17.5	<b>14.6</b>	<b>18.0</b>	+0.5	+4.2
	Depreciation	0.9	1.1	<b>0.9</b>	<b>1.2</b>	+0.0	+6.7
	R&D	1.3	1.6	<b>1.6</b>	<b>2.1</b>	+0.3	+27.8
	Others	6.3	7.9	<b>6.5</b>	<b>8.0</b>	+0.1	+3.0
Subtotal		22.6	28.2	<b>23.9</b>	<b>29.3</b>	+1.2	+5.4

# Balance Sheet Highlights



	As of March 31, 2019		As of June 30, 2019		Change (billion yen)
	Amount (billion yen)	Share (%)	Amount (billion yen)	Share (%)	
Current assets	205.2	68.4	<b>203.8</b>	<b>68.1</b>	(1.4)
Quick assets	139.1	46.4	<b>134.0</b>	<b>44.8</b>	(5.0)
Inventories	60.7	20.2	<b>66.0</b>	<b>22.1</b>	+5.2
Non-current assets	94.9	31.6	<b>95.3</b>	<b>31.9</b>	+0.3
Property, plant and equipment	56.8	19.0	<b>57.9</b>	<b>19.4</b>	+1.0
Intangible assets	15.6	5.2	<b>15.4</b>	<b>5.2</b>	(0.2)
Total assets	300.1	100.0	<b>299.1</b>	<b>100.0</b>	(1.0)
Current liabilities	66.1	22.0	<b>61.7</b>	<b>20.7</b>	(4.3)
Non-current liabilities	9.2	3.1	<b>9.0</b>	<b>3.0</b>	(0.1)
Total liabilities	75.3	25.1	<b>70.7</b>	<b>23.7</b>	(4.5)
Total net assets	224.8	74.9	<b>228.3</b>	<b>76.3</b>	+3.5
Shareholders' equity	208.8	69.6	<b>212.0</b>	<b>70.9</b>	+3.2
Total liabilities and net assets	300.1	100.0	<b>299.1</b>	<b>100.0</b>	(1.0)

# FY03/2020 Forecast (Announced on April 26, 2019)



	FY03/2019		FY03/2020		YoY change (billion yen)	YoY change (%)	
	Amount (billion yen)	Ratio to net sales (%)	Amount (billion yen)	Ratio to net sales (%)			
Net sales	332.9	100.0	<b>352.0</b>	<b>100.0</b>	+19.0	+5.7	
<i>Cosmetics</i>	254.9	76.6	<b>273.3</b>	<b>77.7</b>	+18.3	+7.2	
<i>Cosmetaries</i>	74.6	22.4	<b>74.7</b>	<b>21.2</b>	+0.1	+0.1	
<i>Other</i>	3.3	1.0	<b>4.0</b>	<b>1.1</b>	+0.6	+17.7	
Operating profit	52.4	15.7	<b>54.0</b>	<b>15.3</b>	+1.5	+3.0	
Ordinary profit	53.9	16.2	<b>54.7</b>	<b>15.5</b>	+0.7	+1.3	
Profit attributable to owners of parent	37.0	11.1	<b>37.1</b>	<b>10.5</b>	+0.1	+0.3	
Net income per share	648.71 yen		<b>650.37 yen</b>		Foreign exchange rate		
					Currency	Actual	Estimate
Capital expenditure	18.5		<b>18.1</b>		US dollar/Yen	110	110
Depreciation	8.0		<b>10.1</b>		Taiwan dollar/Yen	3.7	3.6
					Chinese yuan/Yen	16.7	16.7
					100 Korean won/Yen	10.0	10.0
<ul style="list-style-type: none"> <li>Capital expenditures: Ordinary investment (mold, corner costs, etc.): ¥6.2 billion</li> <li>Manufacturing facilities: ¥2.8 billion</li> <li>ALBION Kumagaya Plant (partially): ¥3.4 billion</li> </ul>							

# Supplementary Information (1)

## Topics in the Second Quarter of FY03/2020 Onward

# DECORTÉ



**To be released on September 16, 2019**  
**AQ MELIORITY skin care series**



# ALBION



**To be released on August 18, 2019**  
**powderlesst**



**To be released on September 16, 2019**  
**FLORA DRIP**

# ADDICTION



**Released on July 26, 2019**  
**COMPACT 10 Limited Edition**  
**EYE CONSCIOUS ADDICTION**



# 雪肌精 SEKKISEI



**July 1 – August 31, 2019**  
**“SAVE the BLUE” Project**  
**(A project to protect the global environment)**

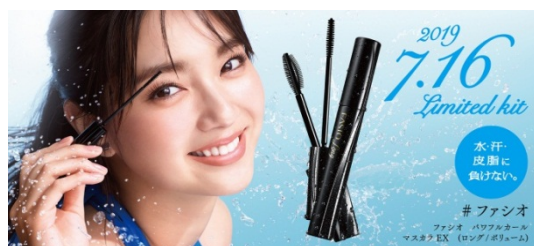


**July 1, 2019**  
**Opening of global sales counters for SEKKISEI**  
**(Located in some of department stores and duty-free stores in Japan and overseas)**



**To be released on September 16, 2019**  
**ESSENTIAL SOUFFLE**

# FASIO



Released on July 16, 2019  
**FASIO Powerful Curl Mascara EX**  
 limited edition

# STEPHEN KNOLL NEW YORK



To be released on September 16, 2019  
 New line of **STEPHEN KNOLL**  
**NEW YORK** products

# CLEAR TURN クリアターン



Released on July 22, 2019  
 New line of **CLEAR TURN BABYISH**  
 series

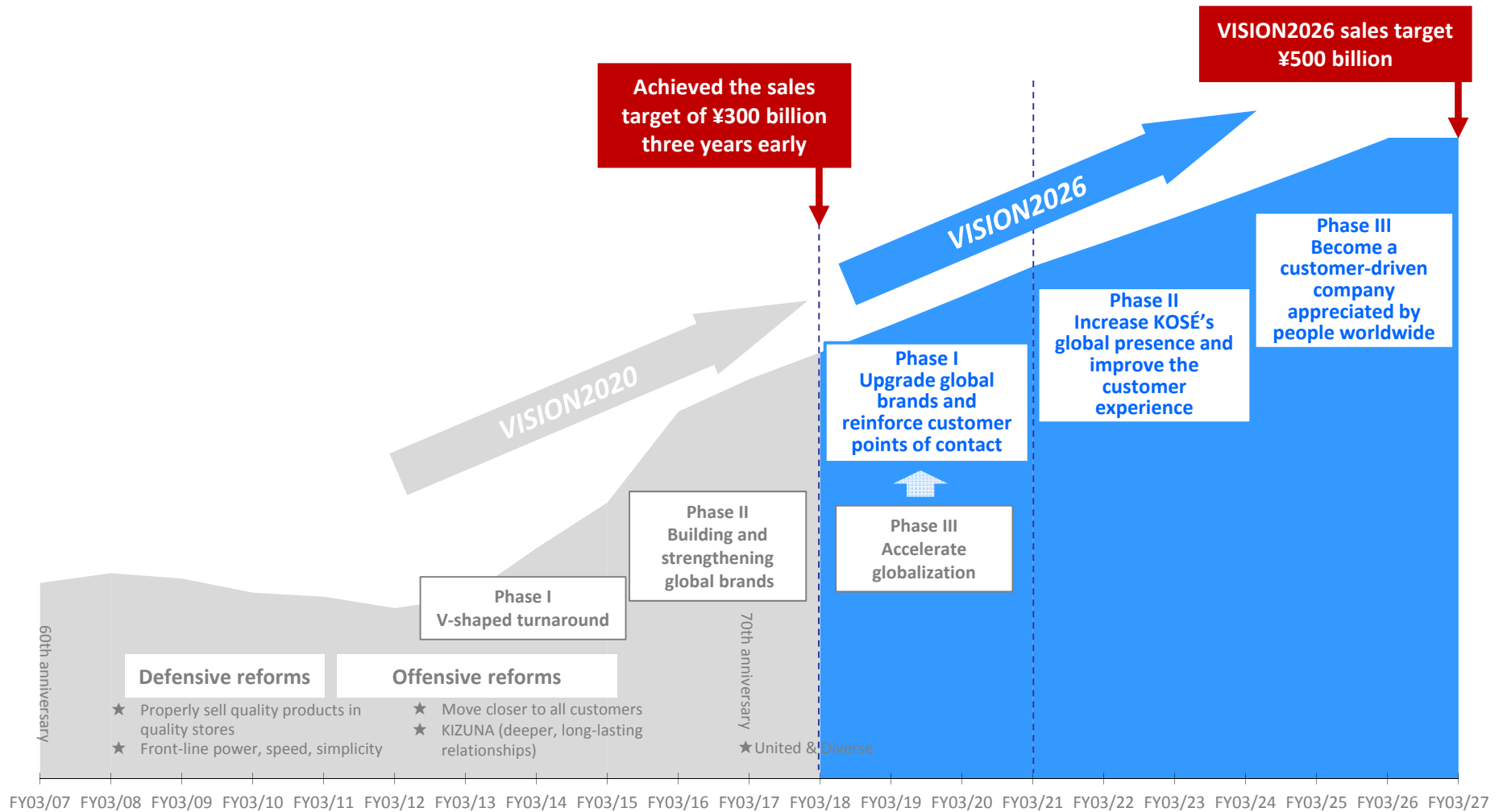
- ◆ Announced the December 2019 opening of Maison KOSÉ, a concept store in Tokyo's Ginza district where digital technology and hands-on experience converge  
(News release dated July 12, 2019)
- ◆ Operations started at KOSÉ Advanced Research Laboratory, consolidating all R&D activities at a single location in Tokyo's Oji district, where KOSÉ was founded  
(News release dated July 16, 2019)
- ◆ Established a company jointly owned with Maruho Co., Ltd.  
(News release dated July 31, 2019)



# Supplementary Information (2)

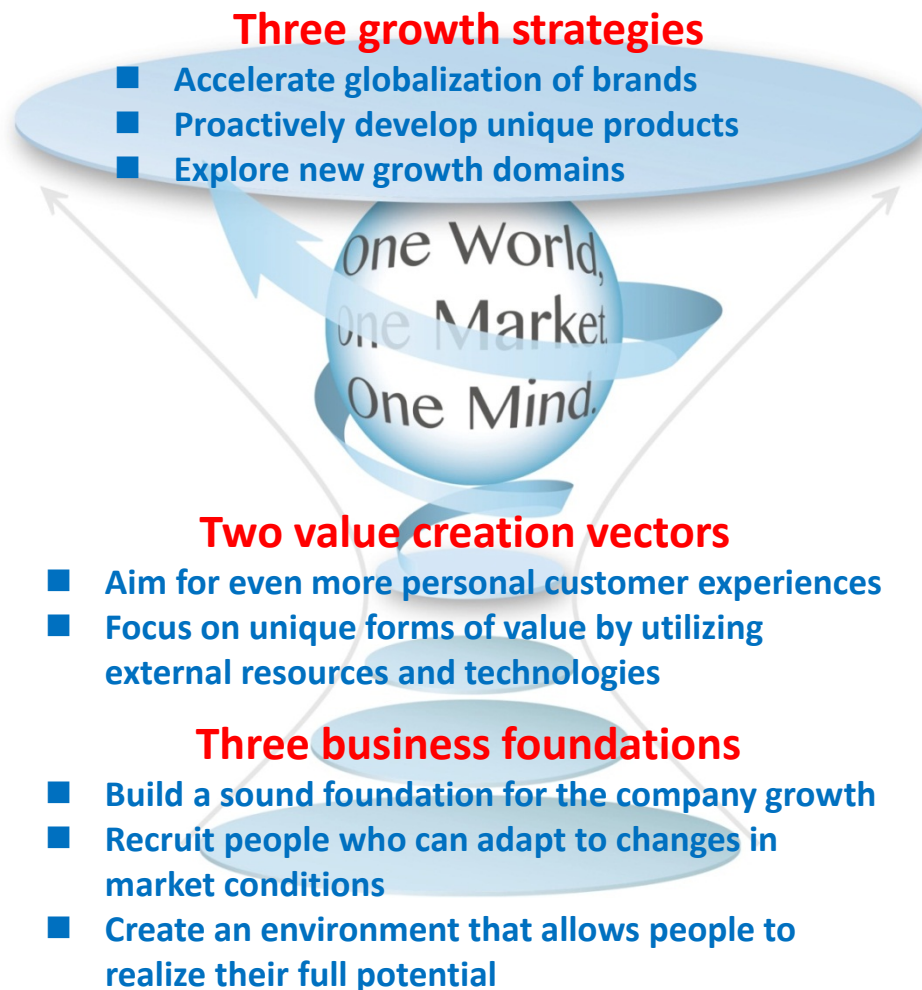
## VISION2026 and Medium-term Business Plan

# Become a company with a global presence





*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.*



## Major actions for achieving strategic goals

- **Accelerate globalization of brands**
  - ✓ Further increase activities for the growth of flagship global brands
- **Proactively develop unique products**
  - ✓ Establish an R&D infrastructure for supply of global-level value
- **Explore new growth domains**
  - ✓ Retain an aggressive stance about entering business domains that can become sources of new demand
  - ✓ Faster e-commerce growth, non-traditional distribution channel initiatives, salon business growth
- **Aim for even more personal customer experiences**
  - ✓ More and better methods for customer interaction and upgraded counseling by using social media, devices and other measures
- **Focus on unique forms of value by utilizing external resources and technologies**
  - ✓ Use open innovation for the creation of new types of value
- **Build a sound foundation for the company growth**
  - ✓ Build a more powerful manufacturing infrastructure
- **Recruit people who can adapt to changes in market conditions**
  - ✓ Recruit people with specialized skills (global, digital and IT personnel)
- **Create an environment that allows people to realize their full potential**
  - ✓ Invest in talent management and other measures for enabling people at KOSÉ to realize their full potential

## FY03/2027 Performance Targets

Net Sales  
**¥500** billion

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

## Global Benchmarks

**Euromonitor Premium Beauty and Personal Care Ranking**

Moving up to the **top 8 in the world ranking**

\*Source: Euromonitor

Consolidated Sales

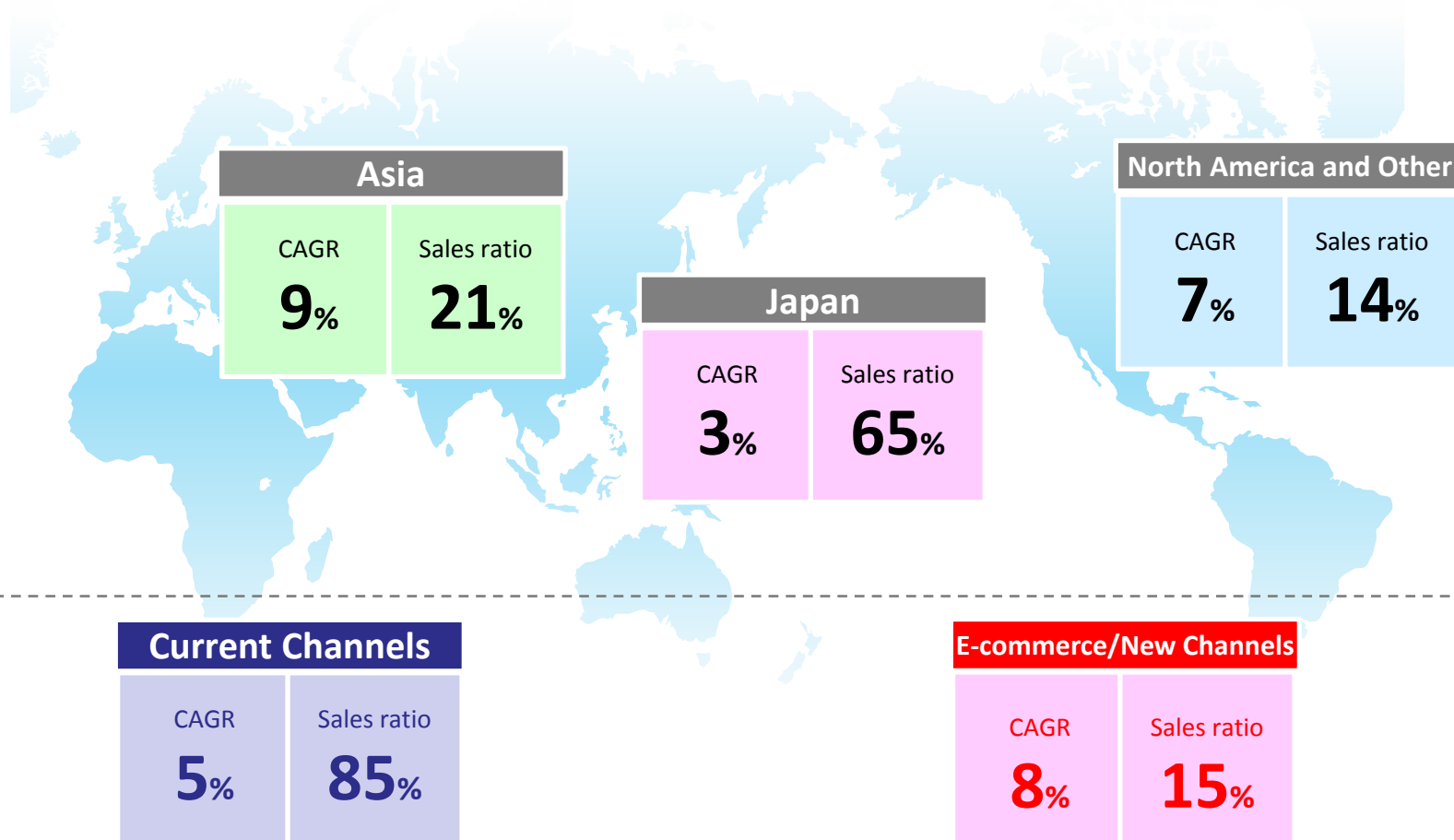
**¥500** billion

Overseas Sales Ratio

**35%** or more

E-commerce/New Channel Sales Ratio

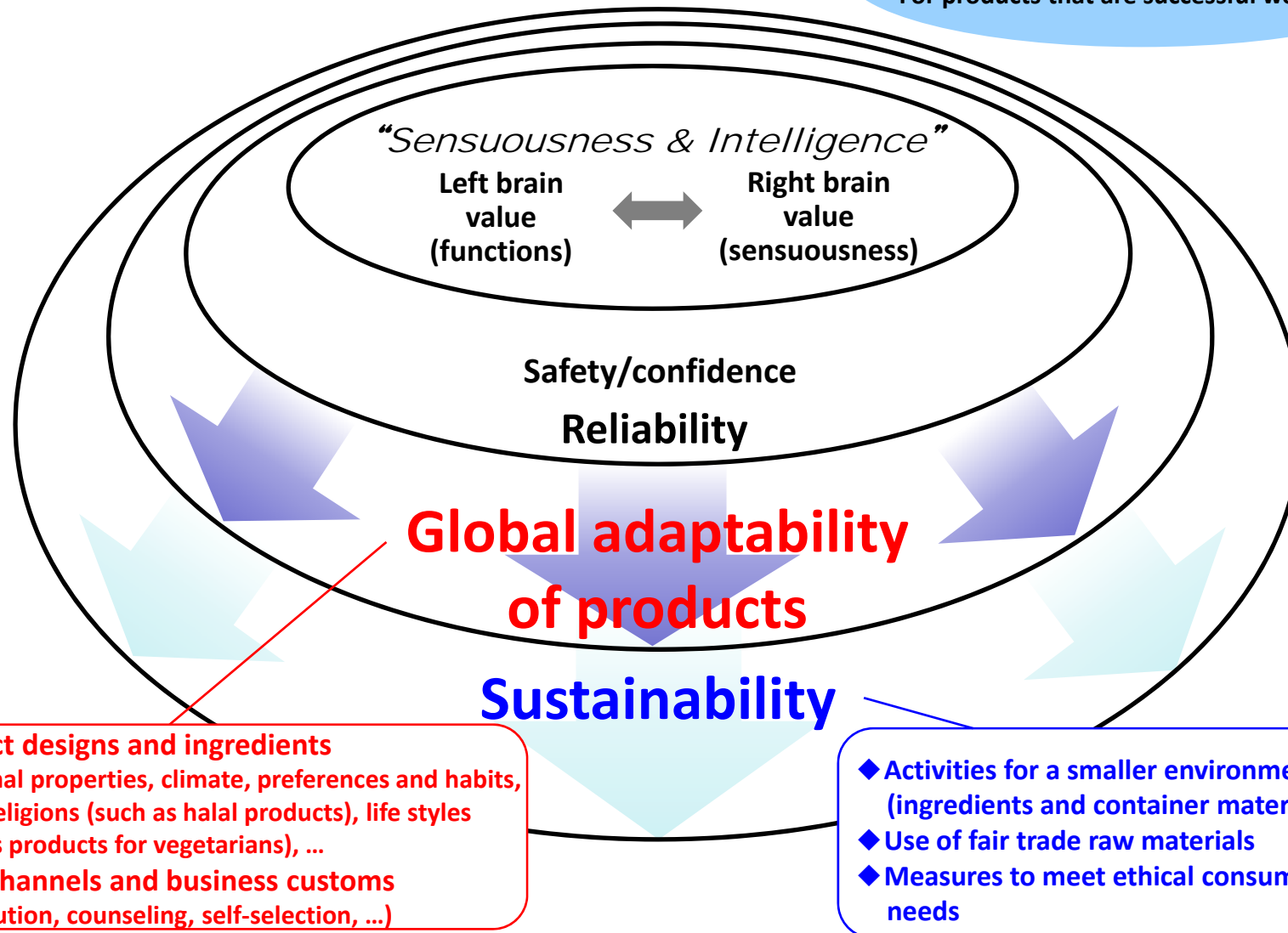
**15%** or more

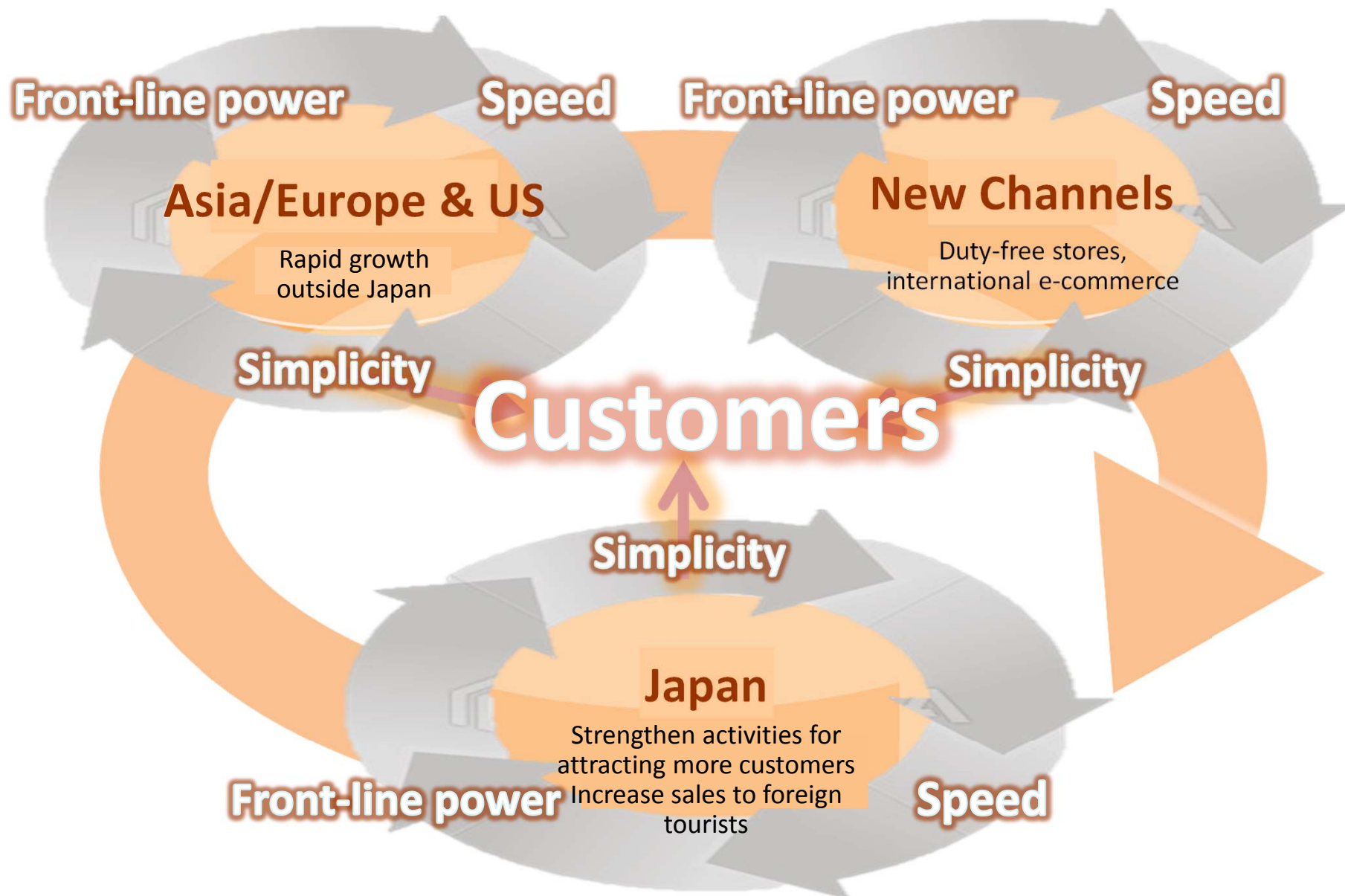




**“Monozukuri 2026”**

-For products that are successful worldwide-





## A new R&D base for innovation and creating new forms of value

### Research Base



KOSÉ Advanced Research Laboratory completed in March 2019

### Key Activities

Build a new **manufacturing framework**

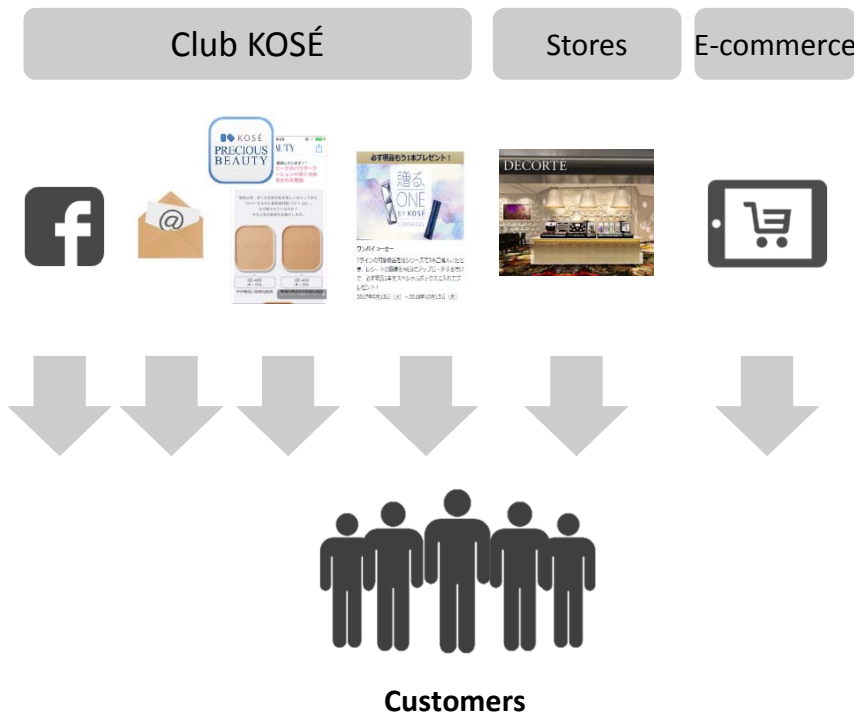
Create new forms of global value

Create **active ingredients** for new distinctive products

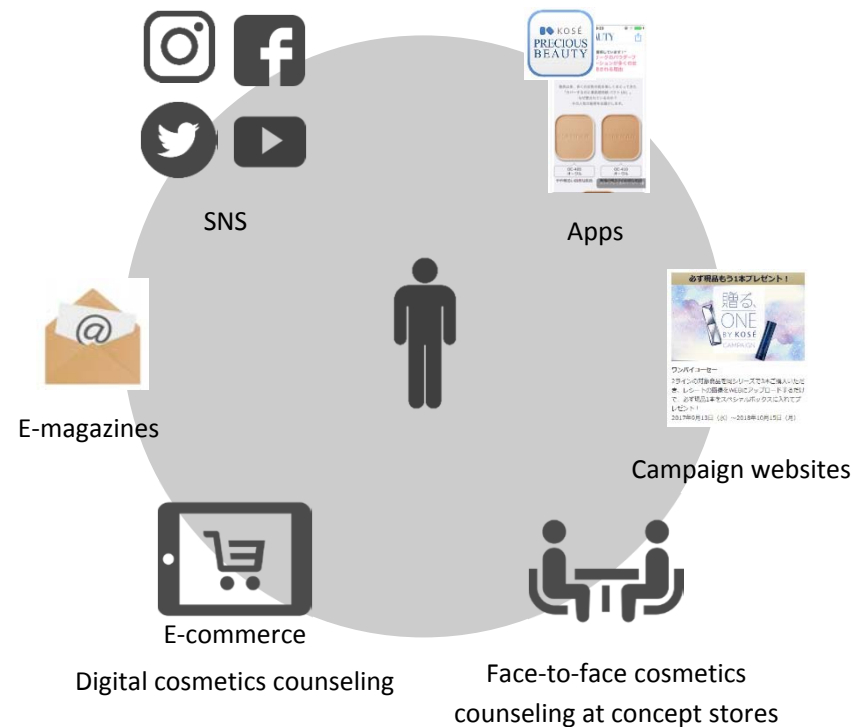
**Training and experience for next-generation leaders** for success on a global scale

## Build a new platform that uses digital marketing

### Previous customer points of contact



### New platform customer points of contact



**Multi-directional ties with customers individually for a new dimension of marketing**

## Create new value and enter new business domains by utilizing external resources and technologies

### Partner Companies

### Primary Actions

### Business Domains

MILBON

- Jan. 2017 Capital and business alliance
- Jul. 2017 Established KOSÉ Milbon Cosmetics Co., Ltd.
- Sep. 2019 Launch of IMPREA, a brand exclusively for beauty parlor products (started sales to some beauty salons in April 2019)

Salon hair products

maruho

- Jul. 2019 Established a jointly owned company
- The goal is to use the value of both companies to produce and sell consumer healthcare products that help people maintain healthy skin

Skin care  
pharmaceuticals

MDR

- Jan. 2019 KOSÉ selected MDR at the Demo Day of the KOSÉ accelerator program, which aims to use external partners for the joint creation of new forms of value
- The goal is to combine MDR's quantum computing and KOSÉ's R&D resources to use the joint intelligence of people and computers for the creation of a new method for developing cosmetics

Quantum computing

## Constructing a new factory to make the supply/quality control infrastructure stronger

### The new Minami Alps Factory (tentative name)



<b>Proposed site</b>	Minami Alps City, Yamanashi
<b>Site area</b>	111,525 m <sup>2</sup>
<b>Use</b>	Cosmetics factory (mainly skin care/hair care products in large lots)
<b>Production capacity</b>	100 million items or more per year
<b>Investment</b>	¥15 - ¥25 billion
<b>Start of production</b>	During FY03/2022

### Main Features

#### **Compliance with ISO 22716, the Good Manufacturing Practices standard for cosmetics**

- State-of-the-art quality assurance system
- Environmentally friendly factory designed to be highly economical and functional

#### **A manufacturing base able to capture the greatest possible synergies with all other KOSÉ production bases**

- Incorporates the manufacturing expertise accumulated over many years at other factories through digital technology by utilizing IoT/AI
- An infrastructure for the seamless sharing of R&D data created by research laboratories



## **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
- Three outside directors (one man and two women) <sup>note</sup>

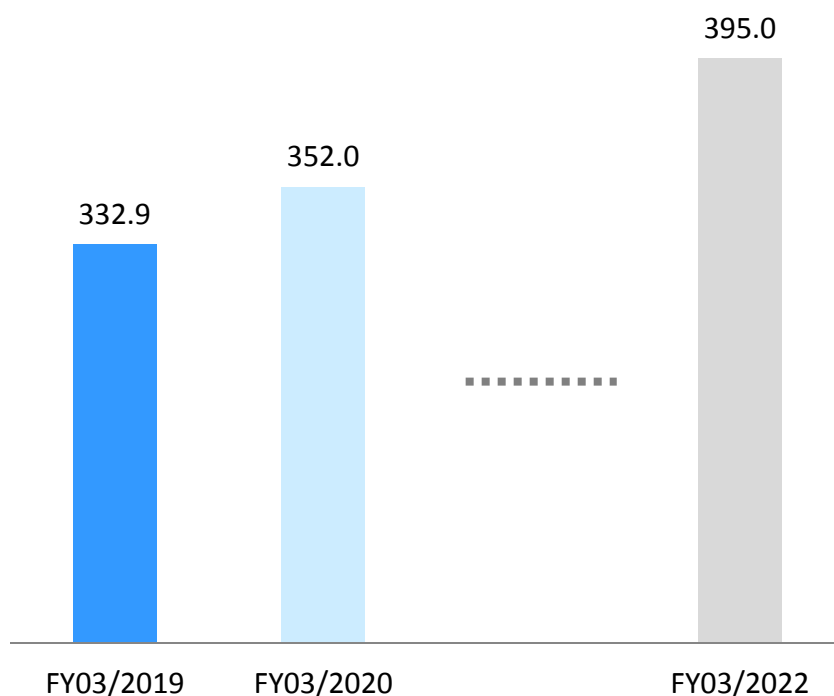
### An organization structured for global operations

- Marketing Headquarters → A matrix framework for marketing for individual business units and regions
- Digital Marketing Division → Response to the shift of marketing activities to digital platforms
- International Operations Division → Divide into Asian Business and European and U.S. Business Divisions
- Research → Establish a unified framework for the global pharmaceutical business

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

- Recruit people with specialized skills (global, digital and IT personnel)
- Create a workplace environment that reflect workforce diversity; assistance and programs for women (return to work after a pregnancy or other needs for time off, work-at-home program, beauty specialist/contract employee program)
- Use working style reforms to improve productivity
- Consistently recognized as a White 500 Company under the Certified Health and Productivity Management Organization Recognition Program

**Performance Benchmarks**  
**(FY03/2022)**



Performance Benchmarks	
Net sales	¥395 billion
Operating margin	16.0%
ROA	18.0%
ROE	16.0%

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



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