



October 31, 2019

**Summary of Financial Results for the Second Quarter of Fiscal Year Ending March 31, 2020
(Six Months Ended September 30, 2019)**

[Japanese GAAP]

Company name: **KOSÉ Corporation** Stock listing: Tokyo Stock Exchange, First Section
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 Scheduled date of filing of Quarterly Report: November 11, 2019
 Scheduled date of dividend payment: December 10, 2019
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for analysts)

(Rounded down to million yen)

**1. Consolidated Financial Results for the Six Months Ended September 30, 2019
(April 1, 2019 – September 30, 2019)**

(1) Consolidated financial results (YoY change % represents changes from the previous fiscal year)

	Net sales (Million yen)	YoY change (%)	Operating profit (Million yen)	YoY change (%)	Ordinary profit (Million yen)	YoY change (%)	Profit attributable to owners of parent (Million yen)	YoY change (%)
2Q FY03/2020	170,773	6.1	28,314	(7.8)	28,046	(14.0)	18,192	(18.1)
2Q FY03/2019	160,996	11.3	30,712	30.9	32,610	36.2	22,214	46.0

Note: Comprehensive income (million yen) 2Q FY03/2020: 17,816 (down 17.7%) 2Q FY03/2019: 21,645 (up 30.6%)

	Net income per share (basic) (Yen)	Net income per share (diluted) (Yen)
2Q FY03/2020	318.92	-
2Q FY03/2019	389.42	-

(2) Consolidated financial position

	Total assets (Million yen)	Net assets (Million yen)	Equity ratio (%)	Net assets per share (Yen)
2Q FY03/2020	306,897	237,013	71.7	3,859.49
FY03/2019	300,162	224,841	69.6	3,660.77

Ref.: Shareholders' equity (million yen) 2Q FY03/2020: 220,158 FY03/2019: 208,823

2. Dividends

	Dividend per share				
	1Q-end (Yen)	2Q-end (Yen)	3Q-end (Yen)	Year-end (Yen)	Total (Yen)
FY03/2019	-	85.00	-	95.00	180.00
FY03/2020	-	95.00	-	-	-
FY03/2020 (forecast)	-	-	-	95.00	190.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(YoY change % represents changes from the previous fiscal year)

	Net sales (Million yen)	YoY change (%)	Operating profit (Million yen)	YoY change (%)	Ordinary profit (Million yen)	YoY change (%)	Profit attributable to owners of parent (Million yen)	YoY change (%)	Net income per share (Yen)
Full year	352,000	5.7	54,000	3.0	54,700	1.3	37,100	0.3	650.37

Note: Revisions to the most recently announced consolidated forecast: None

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1. Qualitative Information on Consolidated Quarterly Financial Performance

(1) Explanation of Results of Operations

Six Months Ended September 30, 2019 (April 1, 2019 – September 30, 2019)

Millions of yen, %

Operating segment	2Q FY03/2019		2Q FY03/2020		YoY change	
	Amount	% comp.	Amount	% comp.	Amount	%
Cosmetics	121,461	75.4	131,918	77.3	10,456	8.6
Cosmetaries	38,172	23.7	36,732	21.5	(1,440)	(3.8)
Other	1,361	0.9	2,122	1.2	760	55.8
Total net sales	160,996	100.0	170,773	100.0	9,776	6.1

	2Q FY03/2019		2Q FY03/2020		YoY change	
	Amount	% of sales	Amount	% of sales	Amount	%
Operating profit	30,712	19.1	28,314	16.6	(2,398)	(7.8)
Ordinary profit	32,610	20.3	28,046	16.4	(4,563)	(14.0)
Profit attributable to owners of parent	22,214	13.8	18,192	10.7	(4,021)	(18.1)

1) Review of Operations

In the first half (April 1 to September 30, 2019) of the current fiscal year, the Japanese economy continued to recover slowly despite the negative effects of a series of typhoons, heavy rain and other natural disasters. The economy was supported by improvements in employment, personal income and other areas as well as an upturn in demand as people rushed to make purchases prior to the October 2019 consumption tax hike. In the Japanese cosmetics industry, according to statistics for cosmetics shipments compiled by the Ministry of Economy, Trade and Industry, the sales volume and monetary sales of cosmetics increased compared with one year earlier. Overseas, in the primary markets for the KOSÉ Group, economic growth slowed in some Asian countries but the U.S. economy continued to recover.

The KOSÉ Group has established VISION2026 for the purpose of providing guidelines for advancing to the next stage of growth as KOSÉ looks ahead to the 80th anniversary of its founding in 2026. The objective of this vision is global and borderless growth through the greatest possible use of KOSÉ's resources and the constant creation of innovative value. A powerful business foundation capable of supporting growth will underpin all activities.

In the first half, net sales increased 6.1% to 170,773 million yen (up 6.6% after excluding the effects of changes in foreign exchange rates) as a result of higher sales in all regions except North America. This was the seventh consecutive year of record-high first half sales. Overseas sales were 29.9% of total sales.

Earnings declined mainly because of an increase in the cost of sales ratio and higher selling, general and administrative expenses caused by expenses for aggressive marketing activities. Operating profit decreased 7.8% to 28,314 million yen, the first year-on-year decline in operating profit in a fiscal year's first half in six years. Ordinary profit decreased 14.0% to 28,046 million yen. Profit attributable to owners of parent decreased 18.1% to 18,192 million yen.

2) Results by Business Segment**a. Cosmetics Business***Millions of yen, %*

	2Q FY03/2019	2Q FY03/2020	YoY change	
			Amount	%
Sales to third parties	121,461	131,918	10,456	8.6
Intragroup sales and transfers	-	-	-	-
Total net sales	121,461	131,918	-	-
Operating profit	28,647	30,438	1,791	6.3
Operating margin	23.6	23.1	-	-

In the high-prestige category of the cosmetics business, sales of DECORTÉ products increased as this brand launched an updated line of products at the top end of its lineup. Sales were higher at ALBION CO., LTD. due to the popularity of new products and sales at the U.S. company Tarte, Inc., which enlarged sales channels in Europe, were unchanged from one year earlier. In the prestige category, sales were higher for the ESPRIQUE brand of makeup products, ONE BY KOSÉ, a line of products with outstanding efficacy for specific beauty care functions, and other products. Overall, sales in the cosmetics business increased 8.6% to 131,918 million yen and operating profit increased 6.3% to 30,438 million yen.

b. Cosmetaries Business*Millions of yen, %*

	2Q FY03/2019	2Q FY03/2020	YoY change	
			Amount	%
Sales to third parties	38,172	36,732	(1,440)	(3.8)
Intragroup sales and transfers	487	-	-	-
Total net sales	38,659	36,732	-	-
Operating profit	4,152	446	(3,705)	(89.3)
Operating margin	10.7	1.2	-	-

In the cosmetaries business, there were activities for developing products that target customers' needs as well as many highly effective advertising and promotional activities. However, sales were down from one year earlier because of the end of a makeup brand licensing agreement in the previous fiscal year. As a result, sales in the cosmetaries business decreased 3.8% to 36,732 million yen and operating profit decreased 89.3% to 446 million yen.

c. Other Business*Millions of yen, %*

	2Q FY03/2019	2Q FY03/2020	YoY change	
			Amount	%
Sales to third parties	1,361	2,122	760	55.8
Intragroup sales and transfers	371	313	-	-
Total net sales	1,733	2,435	-	-
Operating profit	745	647	(98)	(13.2)
Operating margin	43.0	26.6	-	-

In the other business segment, there were increases in sales of amenity products and orders for the manufacture of OEM products. As a result, sales increased 55.8% to 2,122 million yen but operating profit decreased 13.2% to 647 million yen.

3) Net Sales by Region (Sales to Third Parties)*Millions of yen, %*

	2Q FY03/2019		2Q FY03/2020		YoY change	
	Amount	% comp.	Amount	% comp.	Amount	%
Japan	118,541	73.6	119,775	70.1	1,233	1.0
Asia	23,249	14.4	31,367	18.4	8,117	34.9
North America	17,497	10.9	16,721	9.8	(775)	(4.4)
Other	1,707	1.1	2,908	1.7	1,201	70.4
Total net sales	160,996	100.0	170,773	100.0	9,776	6.1

Japan

Sales were higher than one year earlier in major sales channels despite the negative effects of a series of typhoons, heavy rain and other natural disasters. Sales growth was the result of the launch of new products by all brands and aggressive promotional activities that generated sales from normal sources of demand as well as from the upturn in demand as people rushed to make purchases prior to the October 2019 consumption tax hike. In the department store channel, which is used mainly for high-prestige brands, sales to foreign tourists in Japan were lower than one year earlier but sales to Japanese customers were firm. In the drug store and general merchandise store channels, sales of INFINITY, a brand that provides a full line of cosmetics, were higher because of a new marketing strategy. Sales of the ESPRIQUE makeup brand, the ONE BY KOSÉ brand for products with specific beauty care functions and other prestige category brands were higher. In the cosmetaries category, the STEPHEN KNOLL NEW YORK line of hair care products and other brands posted higher sales. As a result, sales increased 1.0% to 119,775 million yen.

Asia

Activities in Asia focused on reinforcing existing sales channels throughout this region and expanding relatively new sales channels like duty-free stores and e-commerce. The objective is establishing global and borderless customer base by using activities including linkage with marketing activities for foreign tourists in Japan. During the first half, sales were higher in key countries and regions. The high-prestige category was a major source of growth throughout Asia due mainly to higher sales of the key global brands such as DECORTÉ and ALBION CO., LTD. In addition, a continuation of the strong growth of duty-free sales in South Korea and the significant growth of e-commerce sales in China also contributed to higher sales in Asia. As a result, sales increased 34.9% to 31,367 million yen.

North America

Tarte strengthened its product lineups in all categories and continued activities aimed at attracting new customer segments. Major initiatives at Tarte include a recently launched brand that targets generation Z (teenagers and early 20s) and Clean Beauty products that ensure the safety of ingredients and are environmental responsibility. However, the challenging conditions of the overall prestige makeup market affected the performance in North America. As a result, sales decreased 4.4% to 16,721 million yen.

Other

Sales increased 70.4% to 2,908 million yen in this category because of the growth of sales of Tarte products in Europe.

(2) Explanation of Consolidated Forecast and Other Forward-looking Statements

There are no revisions to the consolidated fiscal year forecast announced on April 26, 2019.

2. Consolidated Quarterly Financial Statements and Notes**(1) Consolidated Quarterly Balance Sheet***Millions of yen*

	FY03/2019 (As of Mar. 31, 2019)	2Q FY03/2020 (As of Sep. 30, 2019)
Assets		
Current assets		
Cash and deposits	94,385	89,992
Notes and accounts receivable-trade	44,773	47,698
Merchandise and finished goods	34,121	35,758
Work in process	3,005	3,677
Raw materials and supplies	23,655	27,318
Other	5,383	3,953
Allowance for doubtful accounts	(83)	(84)
Total current assets	205,241	208,314
Non-current assets		
Property, plant and equipment		
Buildings and structures	40,960	44,761
Accumulated depreciation	(21,303)	(21,965)
Buildings and structures, net	19,657	22,796
Machinery, equipment and vehicles	17,012	17,769
Accumulated depreciation	(12,299)	(12,724)
Machinery, equipment and vehicles, net	4,713	5,044
Tools, furniture and fixtures	39,199	40,938
Accumulated depreciation	(32,097)	(33,328)
Tools, furniture and fixtures, net	7,101	7,610
Land	17,566	17,553
Leased assets	1,954	1,987
Accumulated depreciation	(1,117)	(1,236)
Leased assets, net	837	750
Construction in progress	7,020	7,284
Total property, plant and equipment	56,896	61,040
Intangible assets		
Software	2,296	2,498
Goodwill	6,675	6,092
Other	6,697	6,225
Total intangible assets	15,669	14,816
Investments and other assets		
Investment securities	11,664	12,654
Deferred tax assets	7,574	6,697
Other	3,361	3,607
Allowance for doubtful accounts	(245)	(233)
Total investments and other assets	22,355	22,726
Total non-current assets	94,921	98,583
Total assets	300,162	306,897

Millions of yen

	FY03/2019 (As of Mar. 31, 2019)	2Q FY03/2020 (As of Sep. 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,764	9,590
Electronically recorded obligations-operating	19,086	18,936
Short-term borrowings	600	721
Lease obligations	228	236
Accounts payable-other	14,371	9,124
Accrued expenses	10,716	9,950
Income taxes payable	7,661	5,309
Accrued consumption taxes	632	1,818
Provision for sales returns	2,132	2,147
Other	913	3,020
Total current liabilities	66,107	60,856
Non-current liabilities		
Lease obligations	837	753
Provision for retirement benefits for directors (and other officers)	2,846	3,262
Retirement benefit liability	4,435	3,846
Other	1,094	1,165
Total non-current liabilities	9,213	9,028
Total liabilities	75,321	69,884
Net assets		
Shareholders' equity		
Share capital	4,848	4,848
Capital surplus	-	15
Retained earnings	207,821	220,594
Treasury shares	(9,102)	(9,103)
Total shareholders' equity	203,566	216,354
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,750	4,070
Foreign currency translation adjustment	1,781	159
Remeasurements of defined benefit plans	(275)	(425)
Total accumulated other comprehensive income	5,256	3,804
Non-controlling interests	16,018	16,854
Total net assets	224,841	237,013
Total liabilities and net assets	300,162	306,897

(2) Consolidated Quarterly Statements of Income and Comprehensive Income**Consolidated Quarterly Statement of Income
(For the Six-month Period)***Millions of yen*

	2Q FY03/2019 (Apr. 1, 2018 – Sep. 30, 2018)	2Q FY03/2020 (Apr. 1, 2019 – Sep. 30, 2019)
Net sales	160,996	170,773
Cost of sales	40,799	44,304
Gross profit	120,196	126,468
Selling, general and administrative expenses		
Advertising expenses	9,257	10,948
Promotion expenses	27,373	31,027
Freight and packing costs	6,742	7,600
Salaries and allowances	24,315	25,668
Retirement benefit expenses	629	391
Legal welfare expenses	3,611	3,781
Depreciation	1,812	1,989
Other	15,742	16,746
Total selling, general and administrative expenses	89,483	98,153
Operating profit	30,712	28,314
Non-operating income		
Interest income	176	236
Dividend income	103	75
Commission income	-	36
Refunded consumption taxes	-	185
Patent licensing	20	12
Foreign exchange gains	1,420	-
Subsidy income	-	35
Miscellaneous income	272	138
Total non-operating income	1,992	718
Non-operating expenses		
Interest expenses	1	1
Commission expenses	6	6
Loss on investments in partnership	54	32
Foreign exchange losses	-	924
Miscellaneous loss	31	21
Total non-operating expenses	94	986
Ordinary profit	32,610	28,046
Extraordinary income		
Gain on sales of non-current assets	8	10
Gain on sales of investment securities	1	0
Gain on sales of shares of subsidiaries and associates	925	-
Gain on liquidation of business	-	115
Total extraordinary income	935	125
Extraordinary losses		
Loss on disposal of non-current assets	289	187
Other	-	4
Total extraordinary losses	289	191
Profit before income taxes	33,256	27,981
Income taxes-current	9,841	7,900
Income taxes-deferred	77	773
Total income taxes	9,919	8,674
Profit	23,337	19,307
Profit attributable to non-controlling interests	1,123	1,114
Profit attributable to owners of parent	22,214	18,192

Consolidated Quarterly Statement of Comprehensive Income
(For the Six-month Period)

Millions of yen

	2Q FY03/2019 (Apr. 1, 2018 – Sep. 30, 2018)	2Q FY03/2020 (Apr. 1, 2019 – Sep. 30, 2019)
Profit	23,337	19,307
Other comprehensive income		
Valuation difference on available-for-sale securities	714	318
Foreign currency translation adjustment	(2,444)	(1,651)
Remeasurements of defined benefit plans, net of tax	38	(157)
Total other comprehensive income	(1,691)	(1,490)
Comprehensive income	21,645	17,816
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	20,546	16,739
Comprehensive income attributable to non-controlling interests	1,098	1,076

(3) Consolidated Quarterly Statement of Cash Flows*Millions of yen*

	2Q FY03/2019 (Apr. 1, 2018 – Sep. 30, 2018)	2Q FY03/2020 (Apr. 1, 2019 – Sep. 30, 2019)
Cash flows from operating activities		
Profit before income taxes	33,256	27,981
Depreciation	3,651	4,068
Amortization of goodwill	396	401
Increase (decrease) in allowance for doubtful accounts	30	(7)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	198	416
Increase (decrease) in retirement benefit liability	(617)	(809)
Increase (decrease) in other provision	(7)	47
Loss (gain) on disposal of non-current assets	280	177
Interest and dividend income	(279)	(311)
Interest expenses	1	1
Foreign exchange losses (gains)	(761)	332
Loss (gain) on sales of investment securities	(1)	(0)
Loss (gain) on sales of shares of subsidiaries and associates	(925)	-
Loss (gain) on investments in partnership	54	32
Gain on liquidation of business	-	(115)
Decrease (increase) in notes and accounts receivable-trade	1,963	(3,217)
Decrease (increase) in inventories	(7,429)	(6,409)
Increase (decrease) in notes and accounts payable-trade	3,348	(117)
Decrease (increase) in other assets	352	2,082
Increase (decrease) in other liabilities	(4,876)	(1,369)
Other, net	-	4
Subtotal	<u>28,635</u>	<u>23,186</u>
Interest and dividend income received	281	343
Interest expenses paid	(1)	(4)
Income taxes paid	(10,516)	(10,165)
Net cash provided by (used in) operating activities	<u>18,398</u>	<u>13,360</u>
Cash flows from investing activities		
Payments into time deposits	(3,843)	(7,878)
Proceeds from withdrawal of time deposits	4,014	8,023
Purchase of property, plant and equipment	(4,933)	(8,815)
Proceeds from sales of property, plant and equipment	21	10
Payments for retirement of property, plant and equipment	-	(66)
Purchase of intangible assets	(1,099)	(939)
Purchase of investment securities	(1,094)	(561)
Proceeds from sales and redemption of investment securities	2	0
Purchase of shares of subsidiaries	-	(5)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	678	-
Loan advances	-	(153)
Decrease (increase) in other investments	(439)	(163)
Net cash provided by (used in) investing activities	<u>(6,694)</u>	<u>(10,549)</u>

Millions of yen

	2Q FY03/2019 (Apr. 1, 2018 – Sep. 30, 2018)	2Q FY03/2020 (Apr. 1, 2019 – Sep. 30, 2019)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-	124
Net decrease (increase) in treasury shares	(3)	(0)
Cash dividends paid	(4,848)	(5,419)
Cash dividends paid to non-controlling shareholders	(263)	(205)
Purchase of treasury shares of subsidiaries	-	(19)
Other, net	(133)	(118)
Net cash provided by (used in) financing activities	(5,249)	(5,638)
Effect of exchange rate change on cash and cash equivalents	(62)	(1,396)
Net increase (decrease) in cash and cash equivalents	6,392	(4,224)
Cash and cash equivalents at beginning of period	63,883	64,264
Cash and cash equivalents at end of period	70,276	60,040

(4) Notes to Consolidated Quarterly Financial Statements**Going Concern Assumption**

Not applicable.

Precaution Concerning Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information**Segment Information**

I. 2Q FY03/2019 (Apr. 1, 2018 – Sep. 30, 2018)

1. Information related to net sales and profit or loss for each reportable segment

Millions of yen

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amounts shown on consolidated quarterly statement of income (Note 3)
	Cosmetics	Cosmetaries	Subtotal				
Net sales							
(1) Sales to third parties	121,461	38,172	159,634	1,361	160,996	-	160,996
(2) Intragroup sales and transfers	-	487	487	371	858	(858)	-
Total sales	121,461	38,659	160,121	1,733	161,854	(858)	160,996
Segment profit	28,647	4,152	32,799	745	33,544	(2,832)	30,712

Notes: 1. The "other" segment consists of activities that are not included in any of the reportable segments: amenity products and real estate leasing.

2. Adjustments to segment profit are as follows.

Millions of yen

Eliminations for intersegment transactions	59
Corporate expenses that cannot be allocated to reportable segments	(2,891)

Corporate expenses consist primarily of expenses related to the administration division at KOSÉ and expenses for basic research that are not assigned to any particular reportable segment.

3. Segment profit is adjusted with operating profit shown on the consolidated quarterly statement of income.

2. Information related to impairment losses on non-current assets and goodwill, etc. for each reportable segment

No significant items in 2Q FY03/2019.

3. Geographic sales information

Millions of yen

Japan	Asia	North America	Other	Total
118,541	23,249	17,497	1,707	160,996

II. 2Q FY03/2020 (Apr. 1, 2019 – Sep. 30, 2019)

1. Information related to net sales and profit or loss for each reportable segment

Millions of yen

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amounts shown on consolidated quarterly statement of income (Note 3)
	Cosmetics	Cosmetaries	Subtotal				
Net sales							
(1) Sales to third parties	131,918	36,732	168,651	2,122	170,773	-	170,773
(2) Intragroup sales and transfers	-	-	-	313	313	(313)	-
Total sales	131,918	36,732	168,651	2,435	171,086	(313)	170,773
Segment profit	30,438	446	30,884	647	31,531	(3,217)	28,314

Notes: 1. The "other" segment consists of activities that are not included in any of the reportable segments: amenity products and real estate leasing.

2. Adjustments to segment profit are as follows.

Millions of yen

Eliminations for intersegment transactions	27
Corporate expenses that cannot be allocated to reportable segments	(3,245)

Corporate expenses consist primarily of expenses related to the administration division at KOSÉ and expenses for basic research that are not assigned to any particular reportable segment.

3. Segment profit is adjusted with operating profit shown on the consolidated quarterly statement of income.

2. Information related to impairment losses on non-current assets and goodwill, etc. for each reportable segment

No significant items in 2Q FY03/2020.

3. Geographic sales information

Millions of yen

Japan	Asia	North America	Other	Total
119,775	31,367	16,721	2,908	170,773

Note: This is a translation of Japanese Kessan Tanshin (including attachments), a summary of financial statements prepared in accordance with accounting principles generally accepted in Japan. This translation is prepared and provided for the purpose of the reader's convenience. All readers are recommended to refer to the original version in Japanese of the report for complete information.