
Results of Operations
Nine Months Ended December 31, 2019



KOSÉ Corporation
January 31, 2020

Sales up as growth in Asia offsets lower sales in Japan

Net sales: ¥249.0 billion (up 0.5% YoY) Operating profit: ¥37.8 billion (down 18.2% YoY)

Cosmetics

Net sales: ¥192.7 billion (up 1.2% YoY) Operating profit: ¥41.5 billion (down 7.0% YoY)

- ✓ High prestige: Higher DECORTÉ and INFINITY sales, lower ALBION and Tarte sales
- ✓ Prestige: Higher ESPRIQUE sales, lower SEKKISEI and ONE BY KOSÉ sales

Cosmetaries

Net sales: ¥53.1 billion (down 3.3% YoY) Operating profit: ¥60 million (down 98.6% YoY)

- ✓ Increase in sales of hair care and skin care products: STEPHEN KNOLL, BIOLISS, Je l'aime, GRACE ONE
- ✓ Slow sales of makeup brands (lower VISÉE sales and impact of end of RIMMEL licensing agreement on Oct. 31, 2018)

Japan

Net sales: ¥173.3 billion (down 4.4% YoY)

Sales to foreign tourists in Japan: ¥15.4 billion (down 26.3% YoY)

- ✓ Sales to foreign tourists in Japan decreased because of expansion of Asia and duty-free store sales channels
- ✓ Sales of major brands decreased because of a drop-off in sales following the upturn in demand prior to the October 2019 consumption tax hike

Asia

Net sales: ¥47.0 billion (up 27.9% YoY)

- ✓ Strong sales growth primarily due to higher sales in China and at duty-free stores in South Korea

Record-high sales for the seventh consecutive year Operating profit decreased due to higher cost of sales and SG&A expenses

	1Q-3Q FY03/2019		1Q-3Q FY03/2020		YoY change	
	Amount (billion yen)	Ratio to net sales (%)	Amount (billion yen)	Ratio to net sales (%)	(billion yen)	(%)
Net sales	247.8	100.0	249.0	100.0	+1.1	+0.5 *note
Cost of sales	63.2	25.5	65.2	26.2	+2.0	+3.2
SG&A expenses	138.3	55.8	145.9	58.6	+7.5	+5.5
Operating profit	46.2	18.7	37.8	15.2	(8.4)	(18.2)
Ordinary profit	47.4	19.2	38.3	15.4	(9.0)	(19.1)
Profit before income taxes	48.8	19.7	38.1	15.3	(10.6)	(21.8)
Profit attributable to owners of parent	32.9	13.3	24.8	10.0	(8.0)	(24.5)
Net income per share	577.28 yen		436.04 yen		(141.24) yen	

Note: Net sales increased 1.4% YoY after excluding the effects of changes in foreign exchange rates

Deterioration in the cost of sales ratio due to slowing sales growth and higher cost of manufacturing
Higher SG&A expenses due to marketing expenditures, increase in beauty consultant remuneration and other items

		1Q-3Q FY03/2019		1Q-3Q FY03/2020		YoY change	
		Amount (billion yen)	Ratio to net sales (%)	Amount (billion yen)	Ratio to net sales (%)	(billion yen)	(%)
Cost of sales		63.2	25.5	65.2	26.2	+2.0	+3.2
SG&A expenses		138.3	55.8	145.9	58.6	+7.5	+5.5
<Significant accounts>							
Selling expenses	Sales promotion	43.9	17.7	46.5	18.7	+2.6	+6.0
	Advertising	15.6	6.3	15.9	6.4	+0.2	+1.7
	Freightage and packing	10.1	4.1	11.2	4.5	+1.1	+11.5
Subtotal		69.6	28.1	73.7	29.6	+4.0	+5.8
General and administrative expenses	Personnel	42.5	17.2	44.2	17.8	+1.7	+4.0
	Others	19.3	7.8	20.0	8.0	+0.6	+3.5
	R&D	4.0	1.6	4.8	2.0	+0.8	+20.9
	Depreciation	2.7	1.1	3.0	1.2	+0.2	+9.0
Subtotal		68.6	27.7	72.1	29.0	+3.4	+5.1

Sales were higher but operating profit decreased at all segments

Net Sales by Segment (sales to third parties)

Segment	1Q-3Q FY03/2019	1Q-3Q FY03/2020	YoY change (billion yen)	YoY change (%)	Share (%)	
	Amount (billion yen)	Amount (billion yen)			1Q-3Q FY03/2019	1Q-3Q FY03/2020
Cosmetics	190.5	192.7	+2.2	+1.2	76.9	77.4
Cosmetaries	54.9	53.1	(1.8)	(3.3)	22.2	21.4
Other	2.3	3.0	+0.7	+30.4	0.9	1.2
Total	247.8	249.0	+1.1	+0.5	100.0	100.0

Operating Profit by Segment (before elimination)

Segment	1Q-3Q FY03/2019	1Q-3Q FY03/2020	YoY change (billion yen)	YoY change (%)	Operating margin (%)	
	Amount (billion yen)	Amount (billion yen)			1Q-3Q FY03/2019	1Q-3Q FY03/2020
Cosmetics	44.7	41.5	(3.1)	(7.0)	23.5	21.6
Cosmetaries	4.4	0.0	(4.3)	(98.6)	7.9	0.1
Other	1.1	0.7	(0.3)	(32.1)	40.4	22.8
Adjustment	(4.0)	(4.5)	(0.5)	+13.9	-	-
Total	46.2	37.8	(8.4)	(18.2)	18.7	15.2

Big third quarter declines in sales of major brands but sales for the first three quarters increased Overseas growth of DECORTÉ not enough to offset decline in Japan

FY03/2019					FY03/2020			
YoY changes in sales, %	1Q	2Q	3Q	4Q	1Q	2Q	3Q	1Q-3Q
Consolidated Sales	+13.8	+8.9	+10.1	+6.6	+1.6	+10.6	(9.9)	+0.5
Cosmetics	+14.6	+11.8	+12.5	+5.8	+3.9	+13.5	(11.9)	+1.2
High prestige	+11	+4	+2	+2	+8	+16	(8)	+5
DECORTÉ	+35	+17	+13	+7	+28	+37	(3)	+19
ALBION	+4	(2)	+1	(1)	(1)	+10	(12)	(2)
Tarte	+5	+4	(3)	(1)	±0	+1	(15)	(5)
Prestige *note	+24	+32	+40	+14	(12)	+5	(26)	(12)
Cosmetaries	+11.1	+1.0	(0.5)	+7.7	(8.1)	+0.2	(2.3)	(3.3)
COSMEPORT	+10	+3	+2	+20	(8)	+6	+9	+2
Other	+13	(1)	(3)	(10)	(8)	(8)	(16)	(11)

Note: Starting in FY03/2020, sales of overseas subsidiaries (except Tarte) that were previously included in the prestige category are categorized based on brands.

Sales growth in Asia offsets declines in Japan and North America Ratio of overseas sales increased to 30.4%

Area	1Q-3Q FY03/2019		1Q-3Q FY03/2020		YoY change (billion yen)	YoY change (%)
	Amount (billion yen)	Ratio to net sales (%)	Amount (billion yen)	Ratio to net sales (%)		
Japan	181.3	73.2	173.3	69.6	(8.0)	(4.4)
Asia	36.7	14.8	47.0	18.9	+10.2	+27.9
North America	27.2	11.0	25.0	10.1	(2.1)	(7.8)
Other	2.5	1.0	3.6	1.4	+1.0	+40.7
Total	247.8	100.0	249.0	100.0	+1.1	+0.5
Overseas sales	66.5	26.8	75.7	30.4	+9.1	+13.8

[New Sales Channels] Consolidated sales composition ratio (1Q-3Q, %)

<EC> 6.1% (Previous year: 5.5%)

<Travel retail> 8.4% (Previous year: 7.4%)

Big sales decline caused mainly by a drop in sales after the consumption tax hike and lower sales to foreign tourists

Sales in Japan (billion yen, %)

	Results	YoY change (amount)	YoY change (%)
1Q-3Q	173.3	(8.0)	(4.4)
Sales to foreign tourists	15.4	(5.5)	(26.3)
1Q	56.5	(3.1)	(5.3)
Sales to foreign tourists	6.5	(1.3)	(16.7)
2Q	63.2	+4.3	+7.4
Sales to foreign tourists	4.9	(1.6)	(24.6)
3Q	53.5	(9.2)	(14.8)
Sales to foreign tourists	4.0	(2.6)	(39.4)

Market Trends

- Low-single-digit growth of cosmetics sales in Japan
- Increasing number of foreign tourists in Japan
- A typhoon and other natural disasters
- Consumption tax hike in October 2019

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Overall

- Sales started recovering in Dec. after the drop due to the Oct. consumption tax hike but are still lower
- Lower sales to foreign tourists mainly due to China's new e-commerce law and the yen's strength

Channels

- Sales down in major channels, particularly at department stores
- Slow sales at duty-free stores in Japan too

Brands

- Strong sales of INFINITY, ESPRIQUE and a hair care brand
- Big downturns in sales of major brands such as DECORTÉ, ALBION, and SEKKISEI

Sales continue to grow in Asia led by sales in China and South Korea duty-free stores

Sales in Asia (billion yen, %)

	Results	YoY change (amount)	YoY change (%)
1Q-3Q	47.0	+10.2	+27.9
1Q	14.8	+4.1	+38.4
2Q	16.4	+3.9	+31.9
3Q	15.6	+2.1	+15.9

Market Trends

China

- High-single-digit sales growth for all consumer goods (Jan.-Sep.)
- Cosmetics sales growth rate slightly over 10% (Jan.- Sep.)

South Korea

- Duty-free sector sales were up about 20% (Jan.- Sep.)
- The cosmetics market is continuing to split into two categories of brands

Taiwan Hong Kong

- Taiwan: The number of individual tourists from China decreased
- Hong Kong: Extended disruptions caused by demonstrations

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China

- DECORTÉ was a major source of growth Department store counters (end of Sep. 2019): 24 stores vs. 16 one year earlier
- E-commerce is about 60% of sales with about double growth

South Korea

- Growth rates of sales to retail stores and sales by stores to customers are both higher than sales growth for the entire duty-free sector
- Sales growth rate is very high for DECORTÉ products

Taiwan Hong Kong

- Sales decreased in Taiwan and Hong Kong

Higher sales in Europe and other regions not enough to offset North America decline

Sales in North America and Other Regions (billion yen, %)

	Results	YoY change (amount)	YoY change (%)
1Q-3Q	28.7	(1.0)	(3.6)
1Q	10.2	+0.2	+2.5
2Q	9.3	+0.1	+1.9
3Q	9.0	(1.5)	(14.2)

Market Trends

- U.S. prestige makeup market remained challenging with YoY high-single-digit sales decrease in the first three quarters of 2019 (Jan.-Sep.)
- Lower market trend continued in the third quarter of 2019 (Jul.-Sep.)

Tarte

- | | |
|---------|---|
| Overall | <ul style="list-style-type: none"> ■ Sales: (1Q-3Q, #Global, including Asia)
Current fiscal year: ¥28.8 billion (Previous fiscal year: ¥30.2 billion) ■ Europe sales growth was not enough to offset lower U.S. sales (Jan.-Sep.) |
| USA | <ul style="list-style-type: none"> ■ Offline and online sales were in line with the overall market ■ Core Palette sales decreased while concealer and mascara posted higher sales |
| Europe | <ul style="list-style-type: none"> ■ Sales at Sephora stores started in March ■ Close to reaching the FY03/2020 goal of expanding sales to 100 stores in five countries |

Inventories are increasing but quick assets remain high
Equity ratio is exceeded 70% due to an increase in non-current assets, mainly plant machinery and equipment

	As of March 31, 2019		As of December 31, 2019		Change (billion yen)
	Amount (billion yen)	Share (%)	Amount (billion yen)	Share (%)	
Current assets	205.2	68.4	202.6	67.1	(2.5)
Quick assets	139.1	46.4	128.9	42.7	(10.2)
Inventories	60.7	20.2	67.7	22.4	+6.9
Non-current assets	94.9	31.6	99.2	32.9	+4.3
Property, plant and equipment	56.8	19.0	62.4	20.7	+5.5
Intangible assets	15.6	5.2	14.5	4.8	(1.0)
Total assets	300.1	100.0	301.9	100.0	+1.7
Current liabilities	66.1	22.0	54.4	18.0	(11.6)
Non-current liabilities	9.2	3.1	8.7	2.9	(0.4)
Total liabilities	75.3	25.1	63.1	20.9	(12.1)
Total net assets	224.8	74.9	238.7	79.1	+13.8
Shareholders' equity	208.8	69.6	221.8	73.5	+13.0
Total liabilities and net assets	300.1	100.0	301.9	100.0	+1.7

Operating cash flows decreased but investments in production and R&D infrastructure for business growth continued

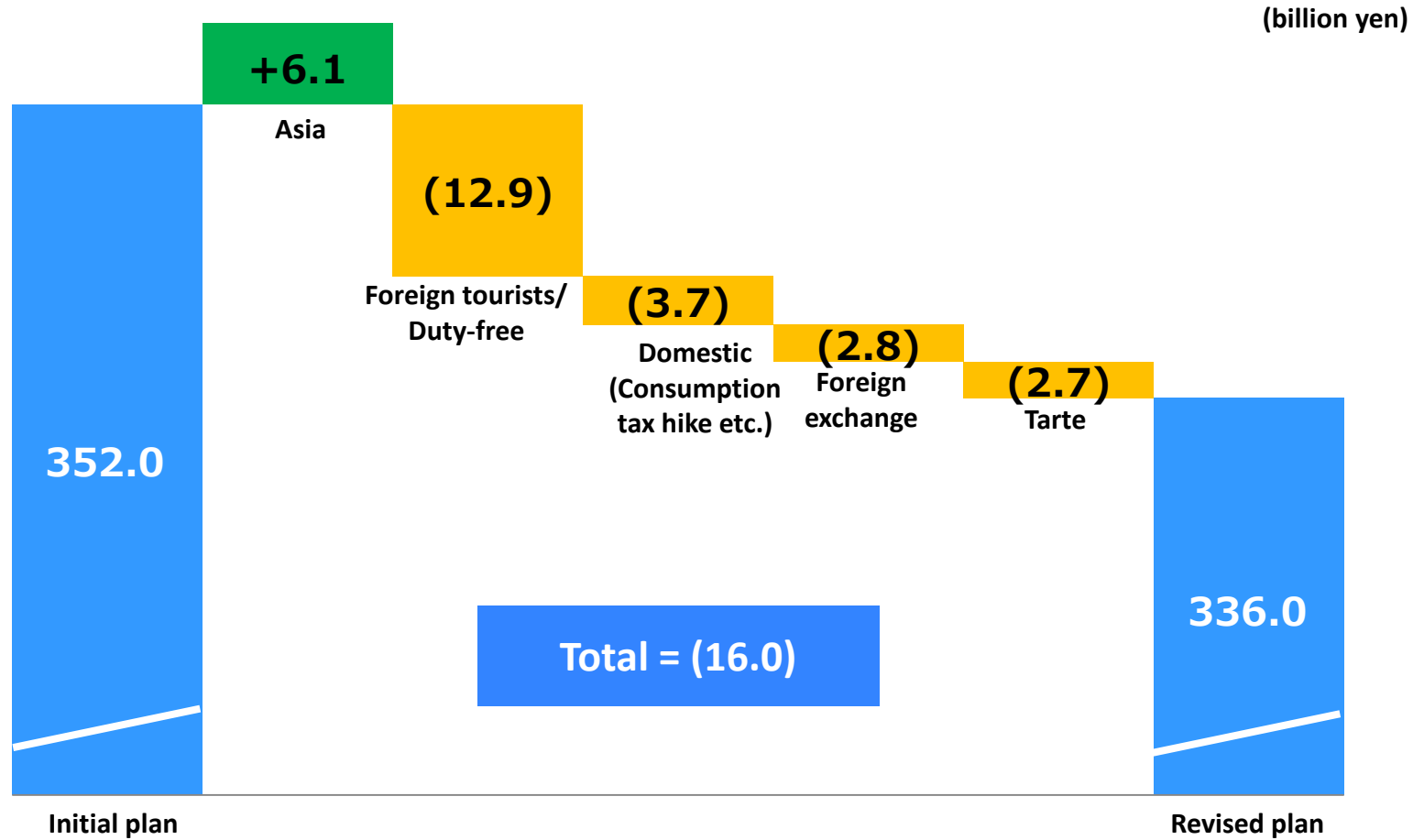
	As of December 31, 2018	As of December 31, 2019	YoY change (billion yen)
	Amount (billion yen)	Amount (billion yen)	
Cash flows from operating activities	29.2	16.9	(12.2)
Cash flows from investing activities *note	(15.7)	(8.9)	+6.8
Cash flows from financing activities	(10.4)	(11.3)	(0.8)
Change in cash and cash equivalents	3.0	(3.2)	(6.2)
Cash and cash equivalents at beginning of period	63.8	64.2	+0.3
Cash and cash equivalents at end of period	66.9	60.9	(5.9)
Capital expenditures	10.7	12.7	+1.9
Depreciation	5.7	6.3	+0.6

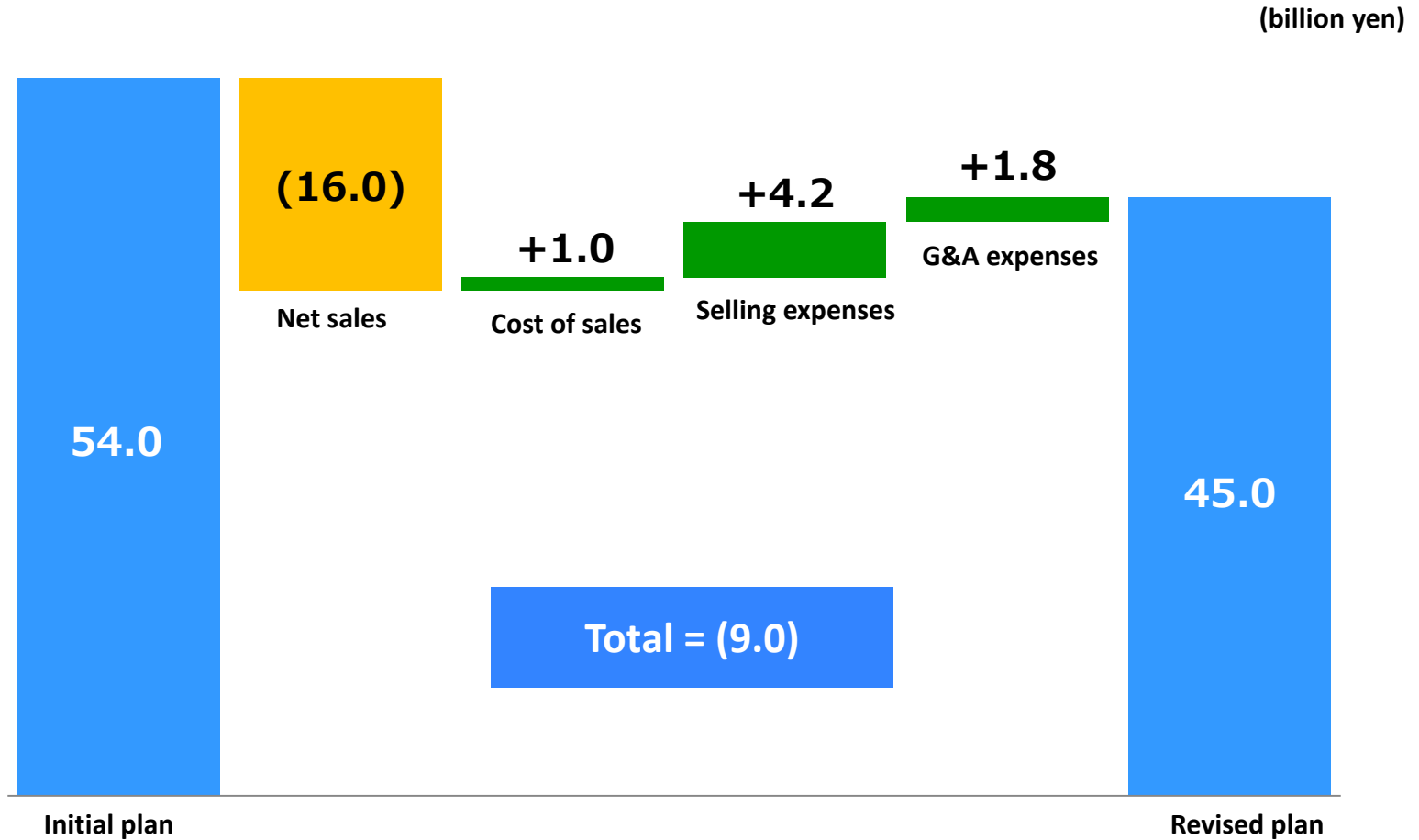
Note: Cash flows from investing activities include proceeds from time deposits (+¥10.9 billion), investment securities (+¥0.5 billion) and other items. As a result, change in cash flows from investing activities was as follows: +¥6.8 billion→(¥4.6 billion)

Although sales in Asia are strong we have revised our forecasts downward in consideration of a decline in inbound tourist numbers and a reactionary dip following a spike in demand ahead of the consumption tax hike

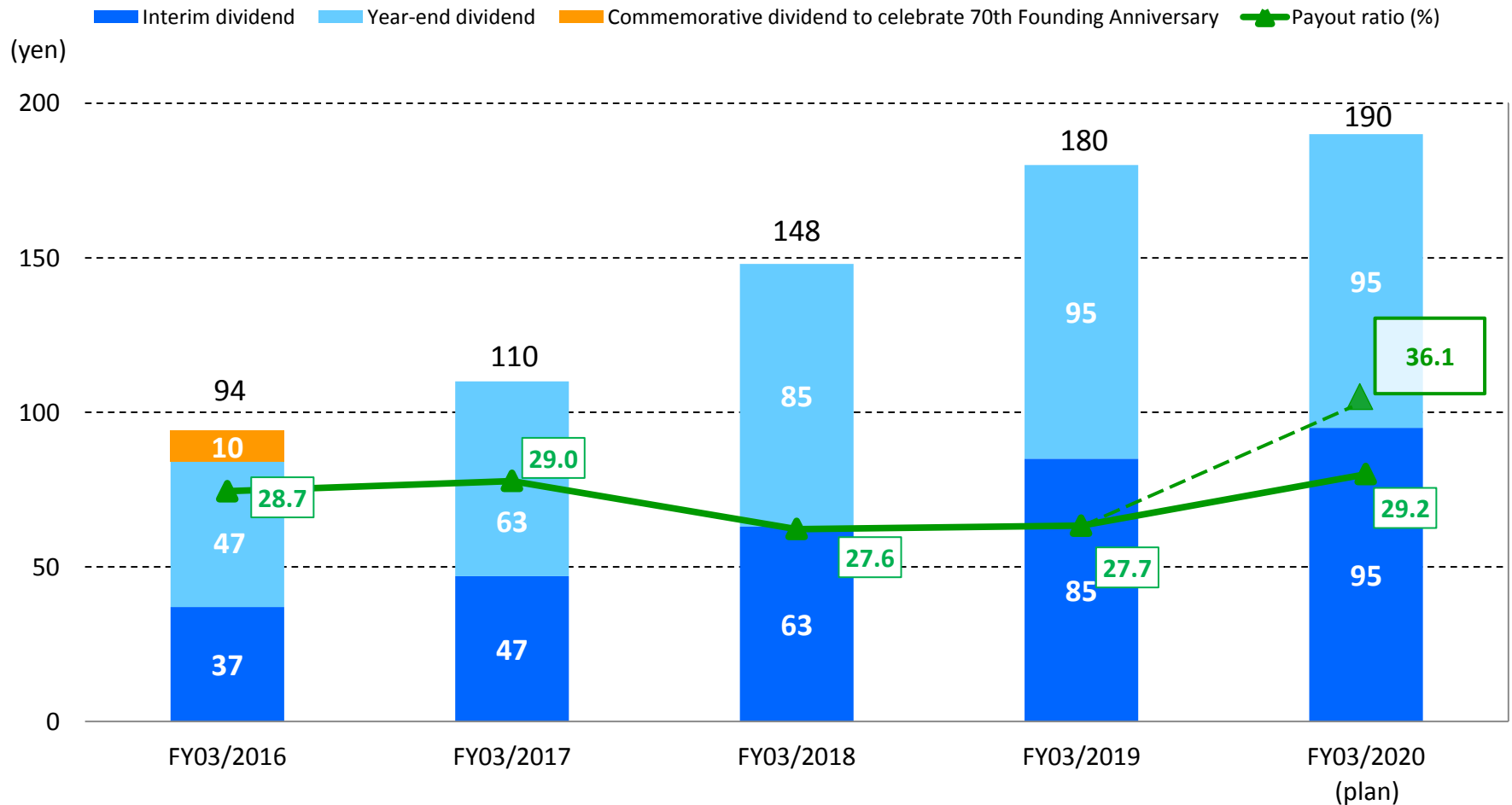
	FY03/2019	Initial plan (announced on April 26, 2019)		Revised plan (announced on January 31, 2020)		YoY change (billion yen)	YoY change (%)
	Amount (billion yen)	Amount (billion yen)	Ratio to net sales (%)	Amount (billion yen)	Ratio to net sales (%)		
Net sales	332.9	352.0	100.0	336.0	100.0	(16.0)	(4.5)
Operating profit	52.4	54.0	15.3	45.0	13.4	(9.0)	(16.7)
Ordinary profit	53.9	54.7	15.5	46.1	13.7	(8.6)	(15.7)
Profit attributable to owners of parent	37.0	37.1	10.5	30.0	8.9	(7.1)	(19.1)
Net income per share	648.71 yen	650.37 yen		525.91 yen			

Foreign exchange rate	FY03/2019	Initial plan (announced on April 26, 2019)	Revised plan (announced on January 31, 2020)
US dollar/Yen	110	110	109
Chinese yuan/Yen	16.7	16.7	15.8
100 Korean won/Yen	10.0	10.0	9.4





No change in the initial plan for FY03/2020 dividends



Supplementary Information (1)
Topics in the Third Quarter of FY03/2020
&
New Products and Promotional Activities
in the Fourth Quarter of FY03/2020 Onward

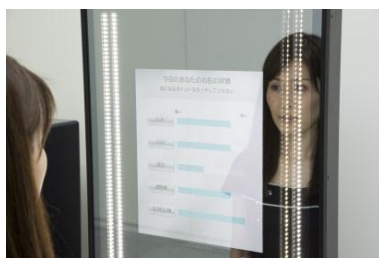
◆ Announced the December 2019 opening of Maison KOSÉ, a concept store in Tokyo's Ginza district where digital technology and hands-on experience converge



-Floor area: About 500 square meters

-Floors: 2

- (1) Sells the products of Tarte, known for cosmetics made with high-performance naturals in the U.S., for the first time in Japan
- (2) Snow Beauty Mirror, a device with new technology under development by Panasonic
- (3) A fingernail printer developed by Casio Computer



◆ Six finalists make presentations at Demonstration Day of the KOSÉ Joint Innovation Program 2019

Winning team, Sunshine Delight, is headed by a high school senior



Beauty care innovations are a big hit



DECORTÉ



To be released on February 16, 2020

WHITELIST

**Brightening Correcting Serum with Kojic Acid
(quasi-drug) (left)**

OVERNIGHT INNER PLUS (right)



To be released on
March 16, 2020

SUN SHELTER



To be released on March 16, 2020

**AQ RADIANT GLOW LIFTING
CUSHION FOUNDATION**

ALBION



To be released on February 17, 2020
ALBION WHITE POWDERLESST



To be released on
February 17, 2020
**Elégance
HARMONIE EYES**



To be released on
February 17, 2020
**Elégance
MODELING COLOR UP BASE UV**

SEKKISEI celebrates the 35th anniversary of its introduction in 1985

Increasing the speed of activities for global sales growth



To be released on March 1, 2020
SEKKISEI MYV
Ultimate Line



Featuring figure skater
Yuzuru Hanyu



To be released on February 16, 2020
in Japan
and on March 1, 2020 in Asia
Skincare UV Gel

ONE
BY KOSÉ



To be released on February 16, 2020
ONE BY KOSÉ
MELANOSHOT WHITE D (quasi-drug)

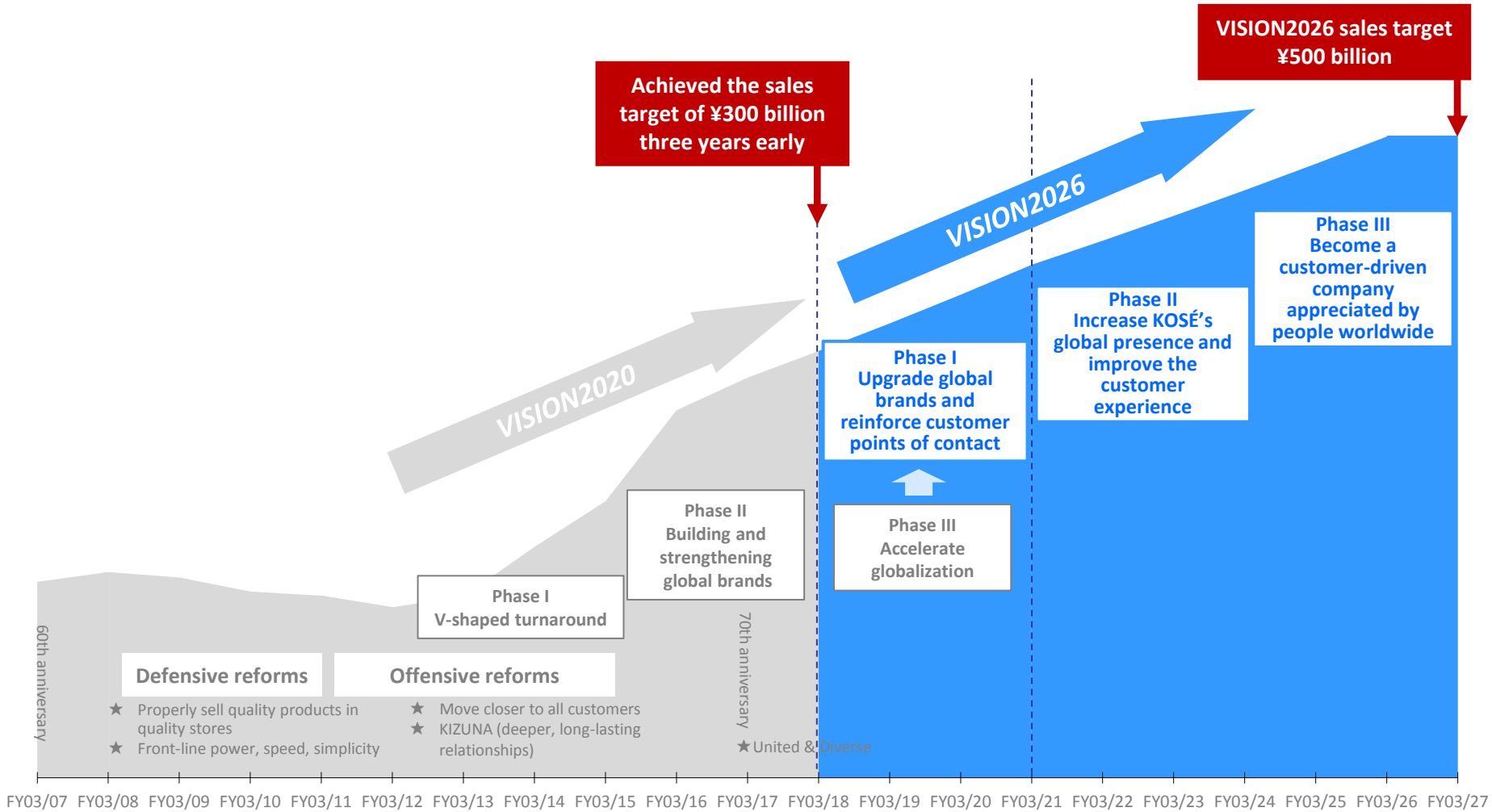


Released on January 16, 2020
ALLERTECT SPRAY

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.

Three growth strategies

- Accelerate globalization of brands
- Proactively develop unique products
- Explore new growth domains

One World,
One Market
One Mind.

Two value creation vectors

- Aim for even more personal customer experiences
- Focus on unique forms of value by utilizing external resources and technologies

Three business foundations

- 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

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

Asia

CAGR

9%

Sales ratio

21%

Japan

CAGR

3%

Sales ratio

65%

North America and Other

CAGR

7%

Sales ratio

14%

Current Channels

CAGR

5%

Sales ratio

85%

E-commerce/New Channels

CAGR

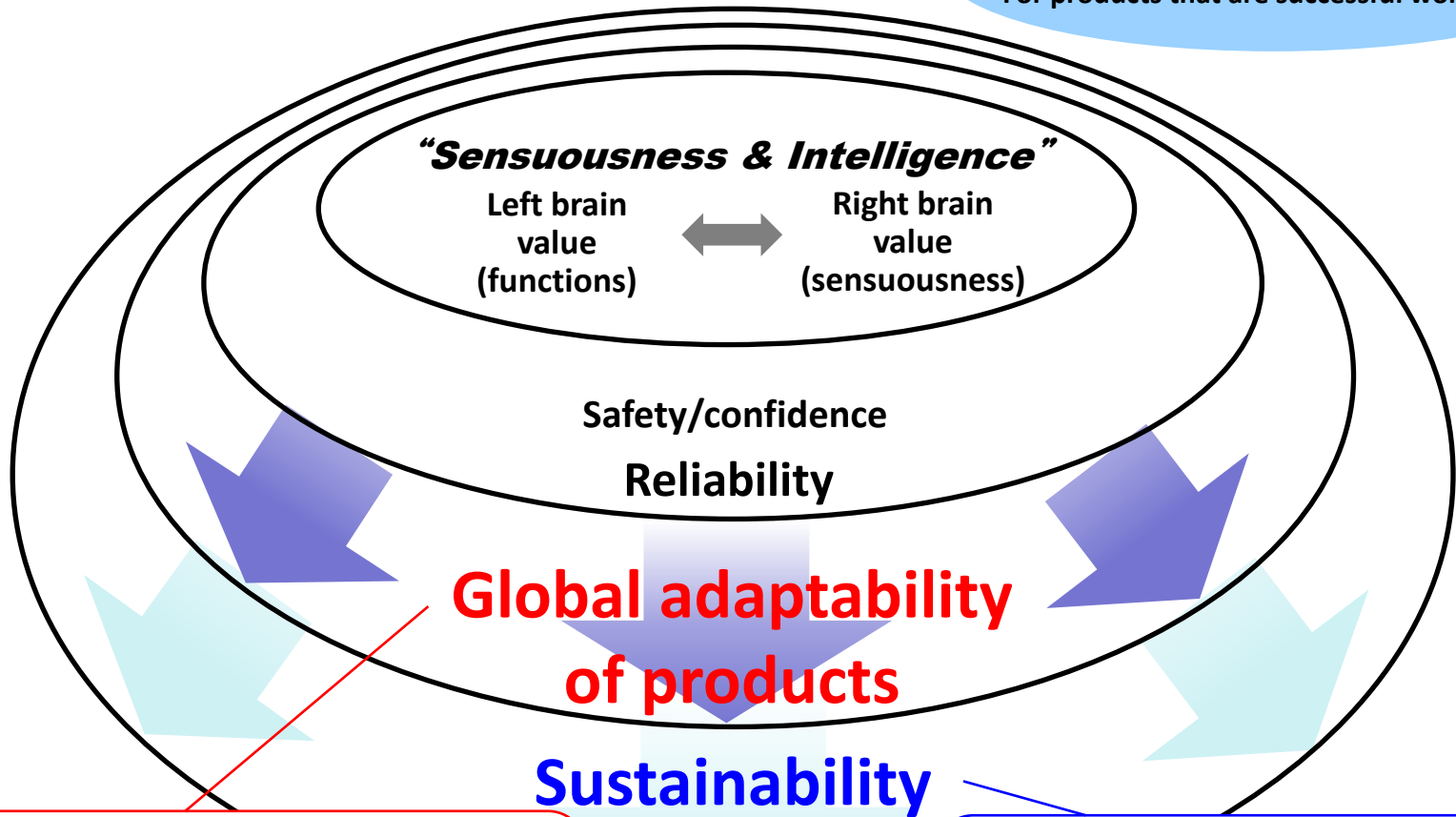
8%

Sales ratio

15%

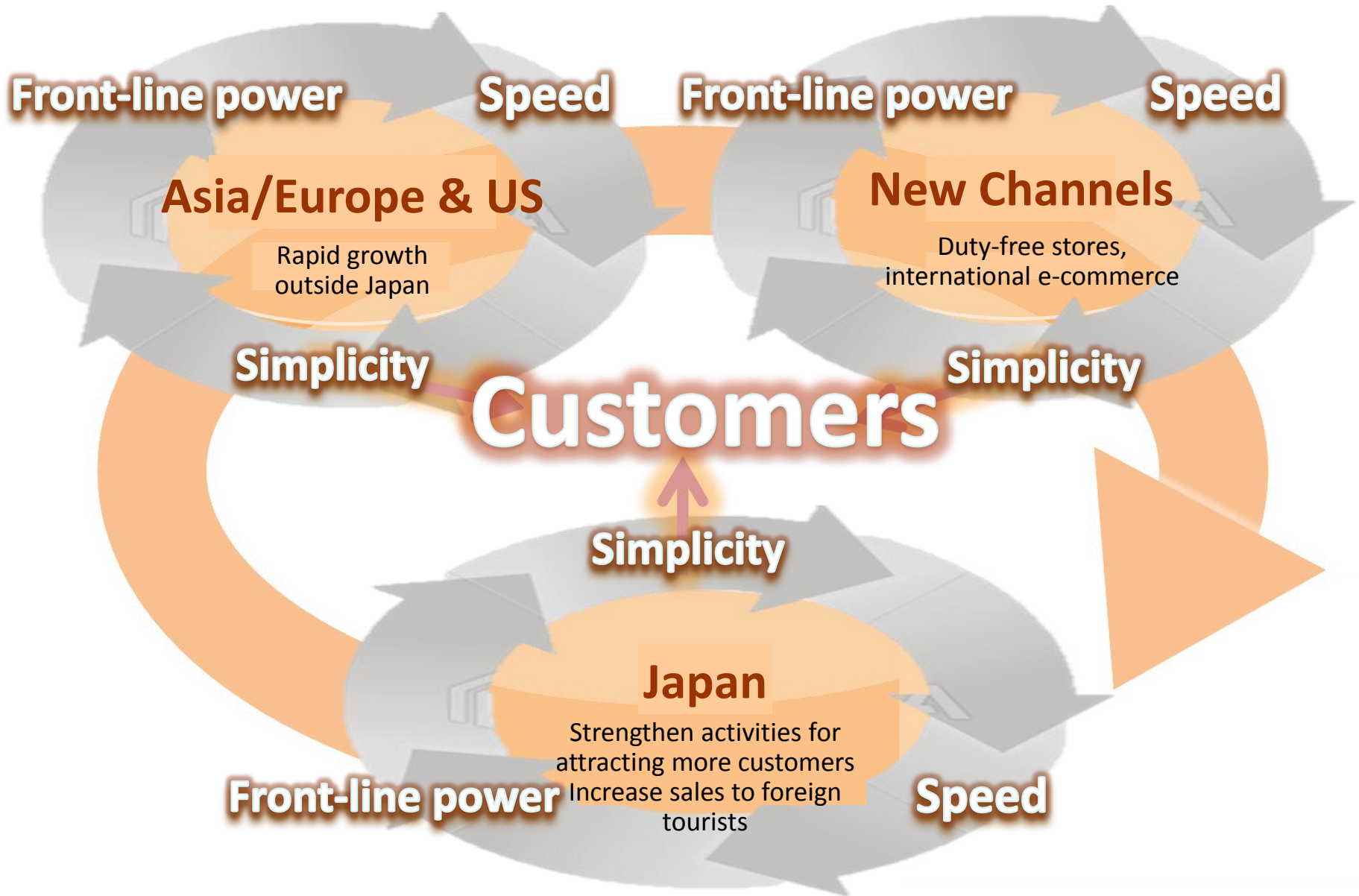
“Monozukuri 2026”

-For products that are successful worldwide-



- ◆ **Product designs and ingredients**
Medicinal properties, climate, preferences and habits, races, religions (such as halal products), life styles (such as products for vegetarians), ...
- ◆ **Sales channels and business customs**
(distribution, counseling, self-selection, ...)

- ◆ **Activities for a smaller environmental impact**
(ingredients and container materials)
- ◆ **Use of fair trade raw materials**
- ◆ **Measures to meet ethical consumerism needs**



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**

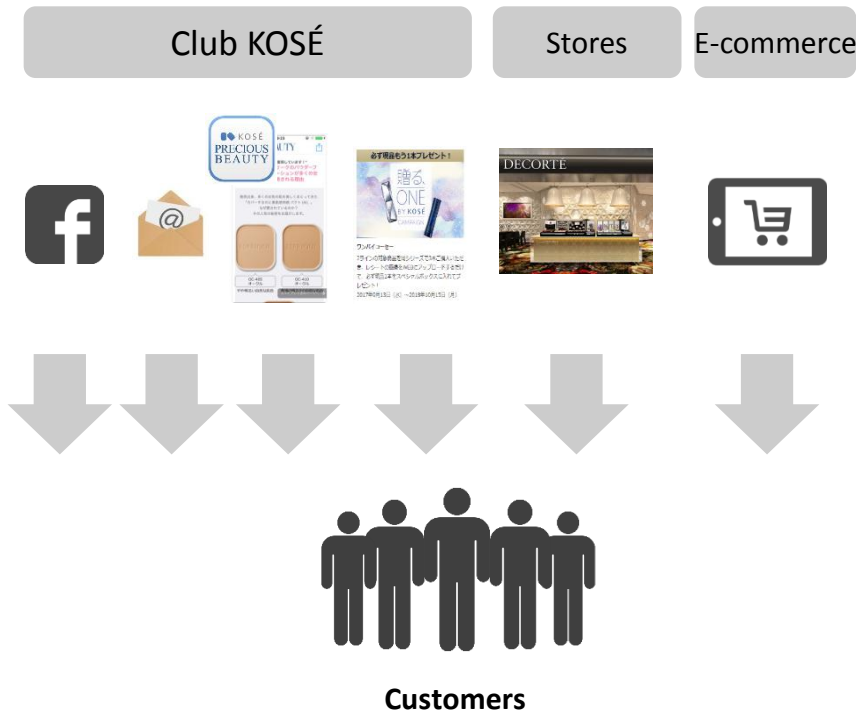
Create new forms of global value

Create **active ingredients** for new distinctive products

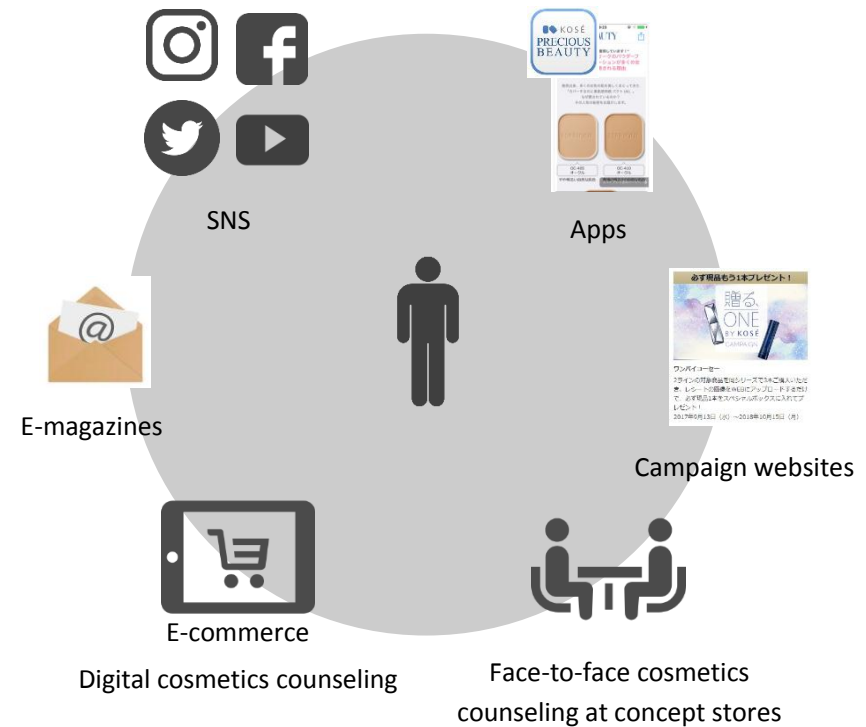
Training and experience for next-generation **leaders** for success on a global scale

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

IMDR

- 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)



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

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

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