
Results of Operations
Six Months Ended September 30, 2020



KOSÉ Corporation
October 30, 2020

1. 1H FY03/2021 Results of Operations

Shinichi Mochizuki, Senior Executive Officer & CFO

2. Topics in the Second Quarter and Activities in the Third Quarter and Afterward

Kazutoshi Kobayashi, President & CEO

3. Supplementary Information

Sales and earnings decreased due to the novel coronavirus (COVID-19) pandemic
Net sales: ¥130.2 billion (down 23.7% YoY); Operating profit: ¥4.0 billion (down 85.8% YoY)

Cosmetics

Net sales: ¥100.8 billion (down 24% YoY); Operating profit: ¥9.3 billion (down 69% YoY)

- ✓ Strong sales growth in China in the duty-free store and e-commerce channels, mainly for DECORTÉ
- ✓ Overall sales in major brands decreased

Cosmetaries

Net sales: ¥28.1 billion (down 23% YoY); Operating profit: ¥(1.9) billion (¥0.4 billion in 1H FY03/2020)

- ✓ Strong sales of products associated with demand created by the COVID-19 crisis and of STEPHEN KNOLL NEW YORK products
- ✓ Weak sales of cleansing, sunscreen and facial sheet mask products because people stayed home

Japan

Net sales: ¥78.8 billion (down 34% YoY); Sales to foreign tourists in Japan: ¥0.9 billion (¥11.4 billion in 1H FY03/2020)

- ✓ The number of foreign visitors plunged due to travel restrictions and Japanese consumers were reluctant to make purchase as governments asked people to stay home

Asia

Net sales: ¥36.7 billion (up 17% YoY)

- ✓ In China, sales increased in all channels after the lockdown ended; sales were weak in other countries

Europe & USA, other

Net sales: ¥14.6 billion (down 25% YoY)

- ✓ Sales declined as major retailers temporarily closed stores but e-commerce sales significantly increased

Net sales decreased 23.7% YoY but measures to hold down expenses resulted in operating profit of ¥4.0 billion

	1H FY03/2020		1H FY03/2021		YoY change	
	Amount (billion yen)	Ratio to net sales (%)	Amount (billion yen)	Ratio to net sales (%)	(billion yen)	(%)
Net sales	170.7	100.0	130.2	100.0	(40.4)	(23.7) *Note
Cost of sales	44.3	25.9	36.7	28.2	(7.5)	(17.0)
SG&A expenses	98.1	57.5	89.5	68.7	(8.6)	(8.8)
Operating profit	28.3	16.6	4.0	3.1	(24.3)	(85.8)
Ordinary profit	28.0	16.4	4.0	3.1	(24.0)	(85.6)
Profit before income taxes	27.9	16.4	4.9	3.8	(23.0)	(82.2)
Profit attributable to owners of parent	18.1	10.7	3.0	2.4	(15.0)	(83.0)
Net income per share	318.92 yen		54.23 yen		(264.69) yen	

Note: Net sales decreased 22.8% YoY after excluding the effects of changes in foreign exchange rates.

The cost of sales ratio and SG&A expense ratio increased due to lower sales but overall SG&A expenses decreased

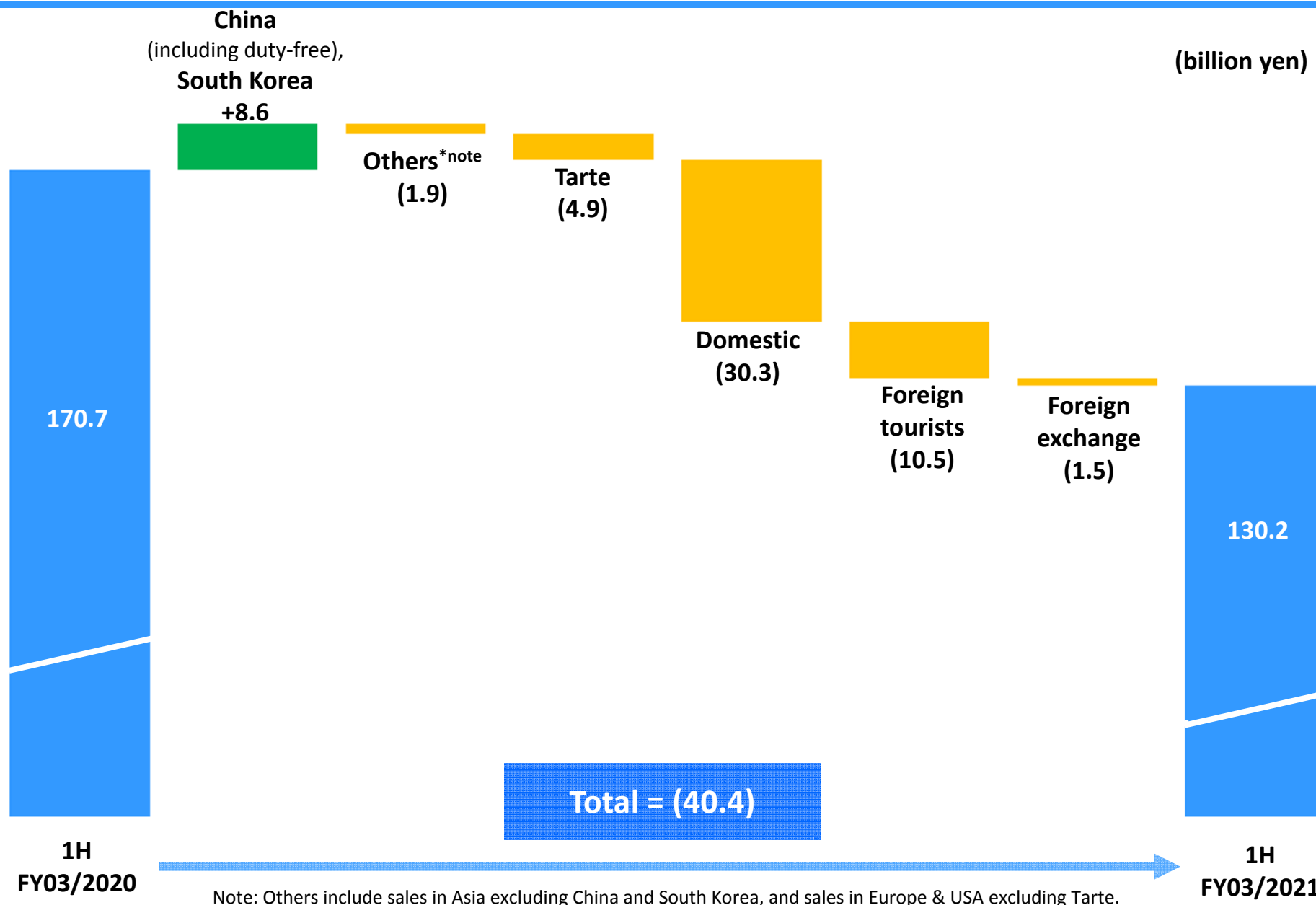
		1H FY03/2020		1H FY03/2021		YoY change	
		Amount (billion yen)	Ratio to net sales (%)	Amount (billion yen)	Ratio to net sales (%)	(billion yen)	(%)
Cost of sales		44.3	25.9	36.7	28.2	(7.5)	(17.0)
SG&A expenses		98.1	57.5	89.5	68.7	(8.6)	(8.8)
<Significant accounts>							
Selling expenses	Sales promotion	31.0	18.2	27.4	21.1	(3.5)	(11.5)
	Advertising	10.9	6.4	7.7	6.0	(3.1)	(29.2)
	Freightage and packing	7.6	4.5	7.3	5.6	(0.2)	(3.8)
Subtotal		49.5	29.0	42.5	32.6	(7.0)	(14.2)
General and administrative expenses	Personnel	29.8	17.5	29.2	22.5	(0.5)	(1.9)
	Others	13.3	7.8	12.6 *note	9.7	(0.7)	(5.7)
	R&D	3.3	2.0	2.8	2.2	(0.4)	(14.1)
	Depreciation	1.9	1.2	2.2	1.7	+0.2	+10.8
Subtotal		48.5	28.4	46.9	36.1	(1.6)	(3.3)

Note: Other general and administrative expenses include administrative expenses of ¥3.4 billion, rents of ¥2.4 billion and travel expenses of ¥1.3 billion.

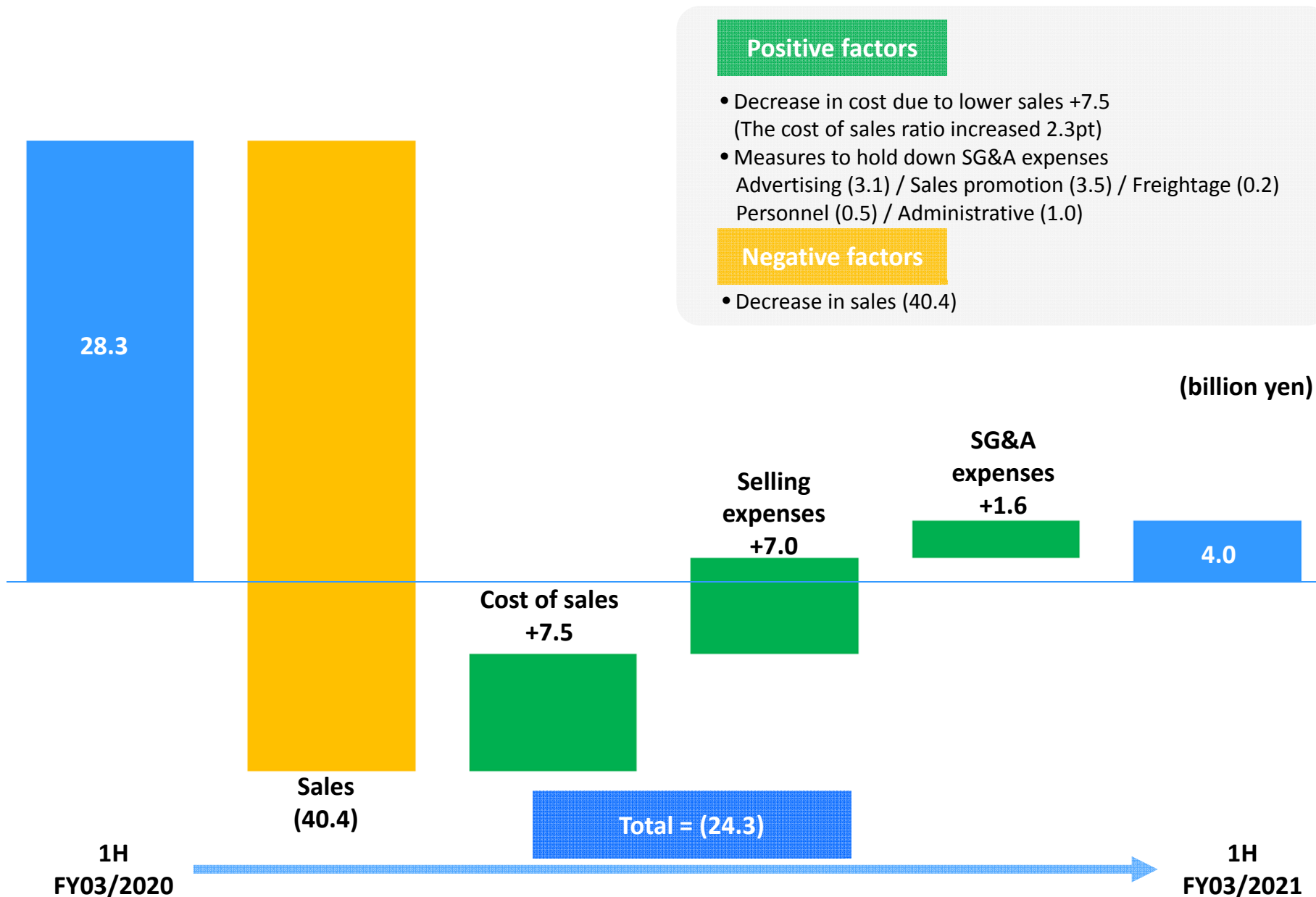
YoY Changes in Net Sales



(billion yen)



YoY Changes in Operating Profit



Sales and earnings decreased at all segments
Operating margin in the cosmetics segment was 9.3%

Net Sales by Segment (sales to third parties)

Segment	1H FY03/2020	1H FY03/2021	YoY change (billion yen)	YoY change (%)	Share (%)	
	Amount (billion yen)	Amount (billion yen)			1H FY03/2020	1H FY03/2021
Cosmetics	131.9	100.8	(31.0)	(23.5)	77.3	77.4
Cosmetaries	36.7	28.1	(8.5)	(23.3)	21.5	21.6
Other	2.1	1.2	(0.8)	(41.1)	1.2	1.0
Total	170.7	130.2	(40.4)	(23.7)	100.0	100.0

Operating Profit by Segment (before elimination)

Segment	1H FY03/2020	1H FY03/2021	YoY change (billion yen)	YoY change (%)	Operating margin (%)	
	Amount (billion yen)	Amount (billion yen)			1H FY03/2020	1H FY03/2021
Cosmetics	30.4	9.3	(21.0)	(69.2)	23.1	9.3
Cosmetaries	0.4	(1.9)	(2.3)	-	1.2	-
Other	0.6	0.2	(0.4)	(68.4)	43.0	13.5
Adjustment	(3.2)	(3.6)	(0.4)	-	-	-
Total	28.3	4.0	(24.3)	(85.8)	16.6	3.1

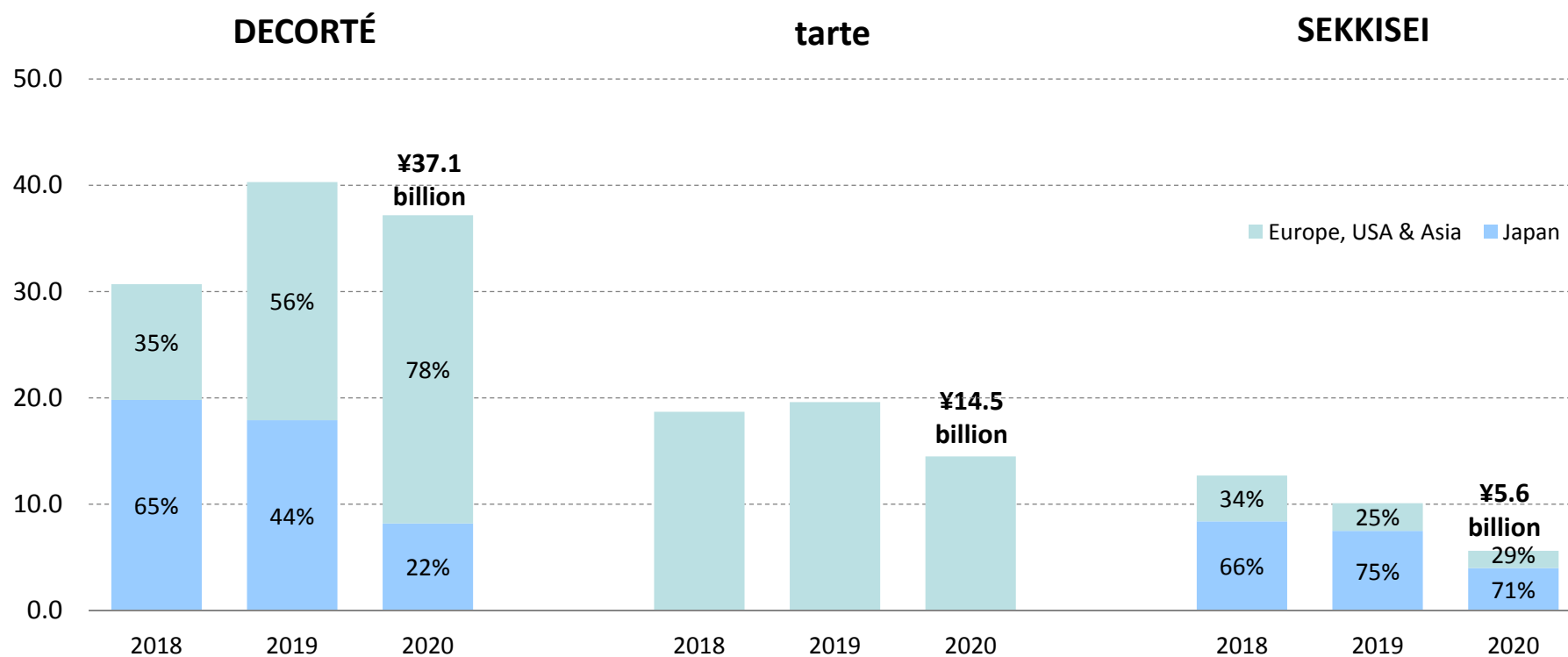
**A relatively small decrease in DECORTÉ sales because of strong sales in China
ALBION and COSMEPORT sales were severely affected by the decline in consumer spending in Japan**

FY03/2020						FY03/2021		
YoY changes in sales, %	1Q	2Q	1H	3Q	4Q	1Q	2Q	1H
Consolidated sales	+1.6	+10.6	+6.1	(9.9)	(7.5)	(26.5)	(21.1)	(23.7)
Cosmetics	+3.9	+13.5	+8.6	(11.9)	(8.3)	(25.4)	(21.8)	(23.5)
High prestige	+8	+16	+12	(8)	(6)	(22)	(19)	(21)
DECORTÉ	+28	+37	+33	(3)	(5)	(10)	(5)	(8)
ALBION	(1)	+10	+4	(12)	(10)	(34)	(24)	(29)
Tarte	±0	+1	±0	(15)	+5	(17)	(36)	(26)
Prestige *note	(12)	+5	(4)	(26)	(16)	(38)	(34)	(36)
Cosmetaries	(8.1)	+0.2	(3.8)	(2.3)	(4.6)	(29.7)	(17.9)	(23.3)
COSMEPORT	(8)	+6	(1)	+9	(6)	(32)	(19)	(24)
Other	(8)	(8)	(8)	(16)	(1)	(26)	(17)	(21)

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 decreased due to COVID-19

Sales of major flagship global brands and group companies (1H sales, billion yen)



Significant decline in sales in Japan and growth in China from April to June increased the ratio of overseas sales to 39.4%

Area	1H FY03/2020		1H FY03/2021		YoY change (billion yen)	YoY change (%)
	Amount (billion yen)	Ratio to net sales (%)	Amount (billion yen)	Ratio to net sales (%)		
Japan	119.7	70.1	78.8	60.5	(40.8)	(34.1)
Asia	31.3	18.4	36.7	28.2	+5.3	+17.0
North America	16.7	9.8	12.9	10.0	(3.7)	(22.3)
Other	2.9	1.7	1.6	1.3	(1.2)	(41.7)
Total	170.7	100.0	130.2	100.0	(40.4)	(23.7)
Overseas sales	50.9	29.9	51.3	39.4	+0.3	+0.8

[New Sales Channels] Consolidated sales composition ratio (1H, %)

EC: 12.4% (6.2% in 1H FY03/2020); China accounts for 32% of total e-commerce sales

Travel retail: 17.2% (10.4% in 1H FY03/2020); China and South Korea account for 49% and 46% of total travel retail sales, respectively

Sales fell 34% as sales to foreign tourists plummeted because of travel restrictions and the need to stay home severely impacted purchases by Japanese consumers

Sales in Japan (billion yen, %)

	Results	YoY change (amount)	YoY change (%)
1H	78.8	(40.8)	(34.1)
Sales to foreign Tourists	0.9	(10.5)	(92.1)
1Q	34.8	(21.7)	(38.5)
Sales to foreign tourists	0.3	(6.2)	(95.6)
2Q	44.0	(19.1)	(30.3)
Sales to foreign tourists	0.6	(4.3)	(87.8)

	YoY change	Sales comp. (sales in Japan)
EC	+28%	5.2%
TR	(92)%	0.3%

Market Trends

- Total cosmetics monetary sales and sales volume were down from one year earlier
- Negative consumer sentiment because of the need to stay home
- Significant decline in the number of foreign visitors because of travel restrictions in many countries

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Overall

- Weak sales of makeup, sunscreen and other products because people stayed home

Channels

- Department stores reduced direct customer contact due to COVID-19
- E-commerce sales increased as people stayed home
- Travel retail sales significantly decreased due to travel restrictions in many countries

Brands

- Big downturns in sales of major brands such as DECORTÉ, ALBION and SEKKISEI

A big increase in first quarter sales in all channels in China despite COVID-19

Sales in Asia (billion yen, %)

	Results	YoY change (amount)	YoY change (%)
1H	36.7	+5.3	+17.0
1Q	16.7	+1.8	+12.1
2Q	20.0	+3.5	+21.4

	YoY change (local currency basis)	Sales comp. (sales in Asia)
China (incl. TR) South Korea	+37%	88%
EC	+62%	20%
TR *South Korea: Jan. to Jun. Others: Apr. to Sep.	+47%	61%

Market Trends

China	<ul style="list-style-type: none"> Rapid resumption of economic activity after the Wuhan lockdown ended in April Economy is very healthy although small lockdowns continue
South Korea	<ul style="list-style-type: none"> Foreign visitors were down significantly from the monthly average one year earlier from April to June Demand is weak in all travel retail categories
Taiwan Hong Kong	<ul style="list-style-type: none"> Taiwan: Entry restrictions continued from April to June Hong Kong: Entry restrictions continued from April to June; demonstrations started again in May

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China	<ul style="list-style-type: none"> Most dept. stores restarted normal operations in May; a rapid recovery Online demand continued to climb, but e-commerce was about above 70% of sales due to the reopening of department stores
South Korea	<ul style="list-style-type: none"> Duty-free store sales were sluggish due to travel restrictions Travel retail online sales increased; sales growth rate is very high for DECORTÉ products
Taiwan Hong Kong	<ul style="list-style-type: none"> Sales decreased in Taiwan and Hong Kong

Many countries have imposed lockdowns due to the rapid growth of COVID-19 infections
Major retailers have temporarily closed stores

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

	Results	YoY change (amount)	YoY change (%)
1H	14.6	(4.9)	(25.2)
1Q	8.5	(1.7)	(16.7)
2Q	6.1	(3.2)	(34.4)

	YoY change	Sales comp.
EC (Tarte) *excludes Sephora and ULTA	+60%	34%

Market Trends

- Governments have imposed lockdowns due to the rapid growth of COVID-19 infections that started in March
- 2020 2Q GDP decreased at an annual rate of 31.4% in USA (preliminary estimate)

Tarte

Overall

- Sales: (1H, Global, including Asia)
1H FY03/2021: ¥14.6 billion (¥19.7 billion in 1H FY03/2020)

USA

- Ulta and Sephora temporarily closed all stores in the middle of March (Stores started reopening around the end of May)
- E-commerce sales were higher, including tarte.com and all other e-commerce channels

Europe and others

- Sephora temporarily closed all stores in March, excluding a few countries (Stores started reopening around the middle of May)
- Sephora has reduced the pace of new store openings because of the COVID-19 crisis

Accounts receivable decreased due to lower sales while inventories increased
Equity ratio remained over 70% despite an increase in borrowings from external sources

	As of March 31, 2020		As of September 30, 2020		Change (billion yen)
	Amount (billion yen)	Share (%)	Amount (billion yen)	Share (%)	
Current assets	204.4	66.2	193.4	64.6	(10.9)
Cash and deposits	97.5	31.6	87.1	29.1	(10.4)
Accounts receivable	38.3	12.4	35.0	11.7	(3.2)
Inventories	61.4	19.9	65.1	21.7	+3.6
Non-current assets	104.1	33.8	106.1	35.4	+2.0
Property, plant and equipment	66.0	21.4	65.2	21.8	(0.7)
Intangible assets	14.7	4.8	14.6	4.9	(0.1)
Total assets	308.6	100.0	299.6	100.0	(8.9)
Current liabilities	59.6	19.3	59.5	19.9	(0.1)
Accounts payable	21.7	7.0	23.6	7.9	+1.9
Short-term borrowings	0.7	0.2	7.6	2.5	+6.9
Non-current liabilities	8.7	2.8	8.9	3.0	+0.2
Total liabilities	68.4	22.2	68.4	22.9	+0.0
Total net assets	240.2	77.8	231.1	77.2	(9.0)
Shareholders' equity	223.6	72.5	215.5	71.9	(8.0)
Total liabilities and net assets	308.6	100.0	299.6	100.0	(8.9)

Cash outflows resulted in ¥6.4 billion but overall cashflow remains stable

	1H FY03/2020	1H FY03/2021	Change (billion yen)
	Amount (billion yen)	Amount (billion yen)	
Cash flows from operating activities	13.3	1.2	(12.0)
Cash flows from investing activities	(10.5)	(2.2)	+8.2
Cash flows from financing activities	(5.6)	(3.8)	+1.8
Change in cash and cash equivalents	(4.2)	(6.4)	(2.2)
Cash and cash equivalents at beginning of period	64.2	70.2	+6.0
Cash and cash equivalents at end of period	60.0	63.7	+3.7

	1H FY03/2020	1H FY03/2021	Change (billion yen)
	Amount (billion yen)	Amount (billion yen)	
Capital expenditures	8.6	6.1	(2.6)
Depreciation	4.0	4.5	+0.5

Consolidated performance mostly consistent with the FY plan Performance differs from the initial outlook in some areas

	1H FY03/2020		1H FY03/2021		YoY change (billion yen)	YoY change (%)
	Amount (billion yen)	Ratio to net sales (%)	Amount (billion yen)	Ratio to net sales (%)		
Net sales	170.7	100.0	130.2	100.0	(40.4)	(23.7)
Operating profit	28.3	16.6	4.0	3.1	(24.3)	(85.8)
Ordinary profit	28.0	16.4	4.0	3.1	(24.0)	(85.6)
Profit attributable to owners of parent	18.1	10.7	3.0	2.4	(15.0)	(83.0)

Evaluation of Initial Outlook (As of September 30, 2020)

Area		Initial outlook (local currency basis)	Evaluation
Japan		(10) to (20)%	▲
China	Mainland	+20 to +30%	○
	TR	-	◎
South Korea		(10) to (20)%	○
Europe & USA (Tarte)		Around (50)%	◎

Positive factors	• Rapid recovery in China
	• Strong e-commerce channel sales
	• Consistently strong growth of travel retail sales (Hainan Island)
Negative factors	• Prolonged downturn in consumer spending in Japan
	• Emergence of a third wave of COVID-19

There is currently no revision to FY03/2021 consolidated forecast

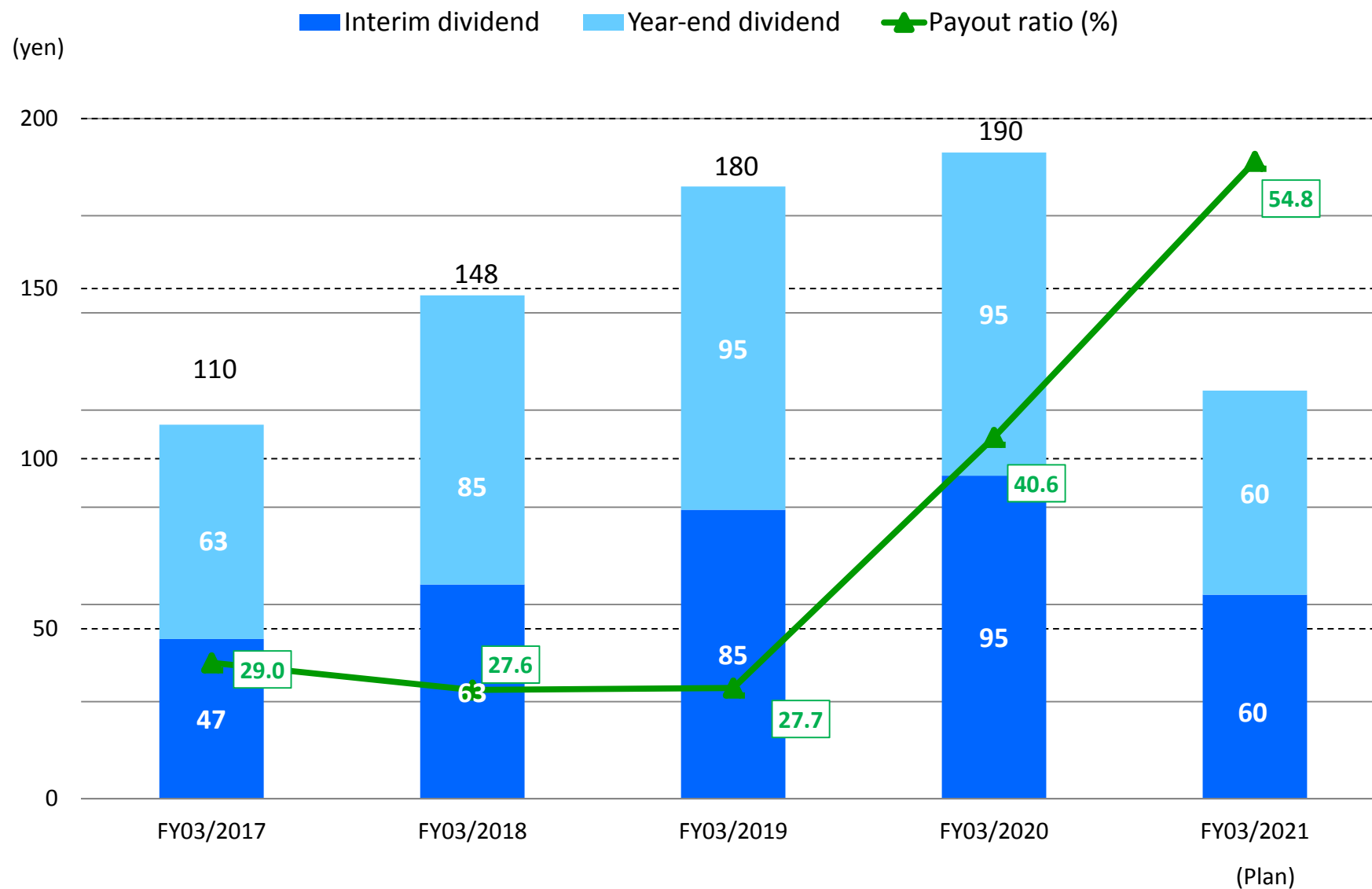
	FY03/2020		FY03/2021		YoY change		FY03/2020		FY03/2021		YoY change	
	2H		2H forecast		(billion yen)	(%)	1Q-4Q		1Q-4Q plan		(billion yen)	(%)
	Amount (billion yen)	Ratio to net sales (%)	Amount (billion yen)	Ratio to net sales (%)			Amount (billion yen)	Ratio to net sales (%)	Amount (billion yen)	Ratio to net sales (%)		
Net sales	156.9	100.0	156.3	100.0	(0.6)	(0.4)	327.7	100.0	286.6	100.0	(41.1)	(12.5)
Operating profit	11.9	7.6	13.1	8.4	+1.2	+10.7	40.2	12.3	17.2	6.0	(23.0)	(57.2)
Ordinary profit	12.8	8.2	14.1	9.1	+1.2	+9.9	40.9	12.5	18.2	6.4	(22.7)	(55.5)
Profit attributable to owners of parent	8.4	5.4	9.4	6.0	+0.9	+10.8	26.6	8.1	12.5	4.4	(14.1)	(53.0)

Outlook for FY03/2021 performance by area

*Foreign exchange rate assumptions: ¥107/USD, ¥15.2/Chinese yuan, ¥0.09/Korean won

	Outlook for the fiscal year plan	Evaluation
Japan	Initial plan included a 2H recovery, but the recovery is slower than expected; achieving the FY plan will be difficult	▲
China	Faster than expected e-commerce and offline recovery; consistently strong travel retail sales growth due partly to Chinese government actions. Expect performance to surpass the FY plan.	◎
South Korea	Starting to recover as some int'l travel restrictions are eased. Expect performance to match the FY plan backed by consistently strong travel retail online sales growth.	○
Europe & USA (Tarte)	Almost all stores had restarted operations as of August 31 and anticipate a recovery as more restrictions on business activities end. Expect performance to surpass the FY plan.	◎

Dividends / Payout Ratio



1. 1H FY03/2021 Results of Operations

Shinichi Mochizuki, Senior Executive Officer & CFO

2. Topics in the Second Quarter and Activities in the Third Quarter and Afterward

Kazutoshi Kobayashi, President & CEO

3. Supplementary Information

KOSÉ’s objective is to optimize operations for the new COVID-19 driven business climate to use an offensive posture to convert today’s difficulties into opportunities

	Products	
	Measures	Benefits and progress
Convert difficulties into opportunities	<ul style="list-style-type: none"> • Add new products that target sectors where COVID-19 is expected to increase demand 	New products include SEKKISEI CLEAR WELLNESS, ONE BY KOSÉ Serum Veil, softymo clear pro, Lip Gel Magic, Curl Keep Magic and Make Keep Mist, etc
Risk control	<ul style="list-style-type: none"> • Review the new product plan and reduce the number of SKUs • Rigid inventory control 	<ul style="list-style-type: none"> • Reduced the number of point makeup colors and postponed product launches

	Promotions, customer contact	
	Measures	Benefits and progress
Convert difficulties into Opportunities	<ul style="list-style-type: none"> • More digital content • Increase e-commerce sales channels and add products sold online • Develop online counseling tools • Make the best use of the KOSÉ Beauty Platform 	<ul style="list-style-type: none"> • In May, started selling DECORTÉ AQ and SEKKISEI Miyabi on China’s Tmall online sales platform • DECORTÉ Concierge Channel • Online content from the Maison KOSÉ staff
Risk control	<ul style="list-style-type: none"> • Review schedule of plans for promotional activities 	<ul style="list-style-type: none"> • Postponed DECORTÉ 50th anniversary events

SEKKISEI

雪肌精

◆September 2020

Launched new SEKKISEI CLEAR WELLNESS series



Brand ambassador
Yui Aragaki



Blue CLEAR WELLNESS ambassador
Mei Nagano



White CLEAR WELLNESS ambassador
Kaya Kiyohara



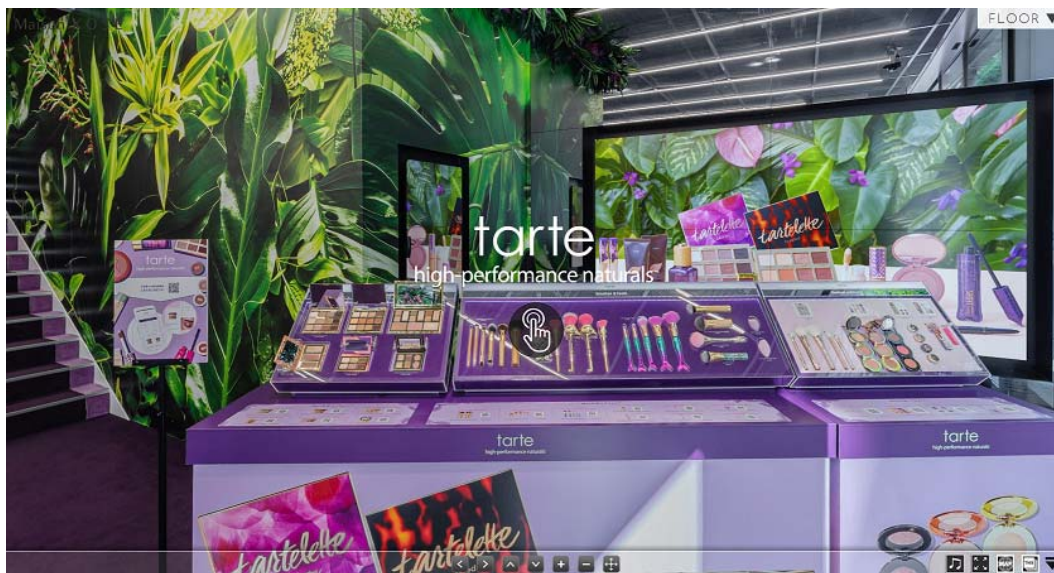
A rendering of Maison KOSÉ

◆Maison KOSÉ concept store communicates the renewed worldview of the SEKKISEI brand

Based on the concept of Earth & Nature, parts of the first and second floors of the Maison KOSÉ concept store is now used to convey the new worldview of the SEKKISEI brand.

◆ Opening of the virtual Maison KOSÉ store

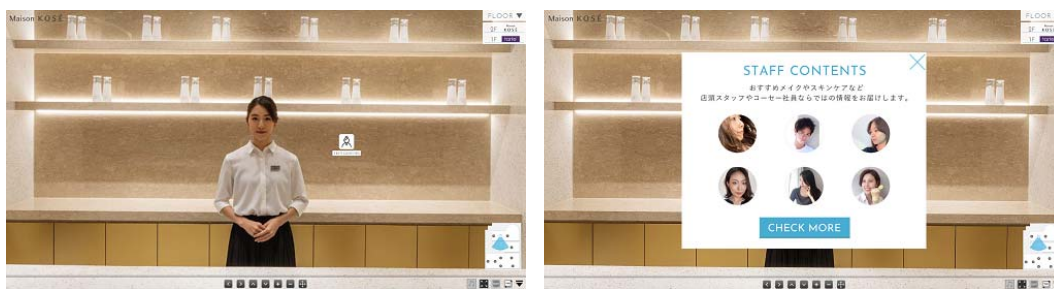
-Uses virtual reality to give visitors access to a broad range of beauty care information and ideas-



The top page of the Maison KOSÉ virtual store URL: <https://ginza.maison.kose.co.jp/>



Second floor: MAKEUP VOYAGE

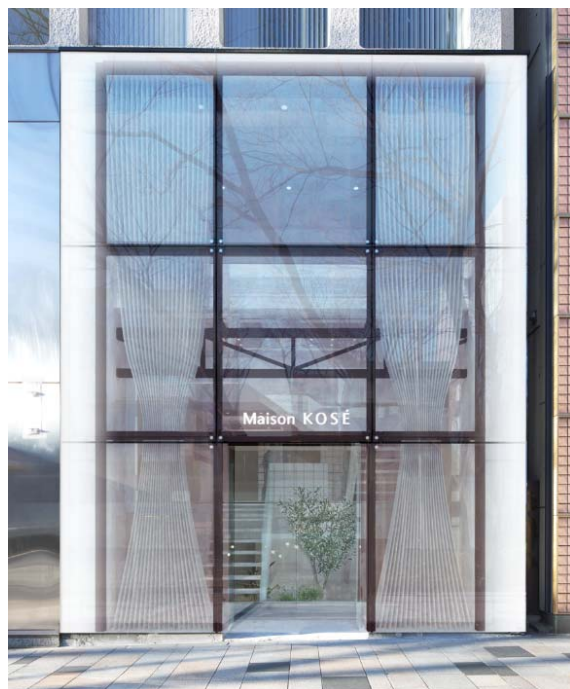


Store personnel offer their own beauty care ideas and suggestions



Second floor: SKINCARE ISLAND

◆ The flagship Maison KOSÉ store will open in December 2020 in Tokyo's Omotesando district



ADDICTION studio



DECORTE



ALL KOSÉ



Location of Maison KOSÉ in Omotesando

Concept store

Maison KOSÉ Ginza

Beauty attraction proof of concept

Beauty attractions

1. Nail printer
2. Personalized sheet masks
3. Snow Beauty Mirror



1. Nail printer

2. Personalized sheet masks

3. Snow Beauty Mirror

Brand activities

1. Sells tarte products for the first time in Japan
2. SEKKISEI rebranding



1. tarte

2. SEKKISEI

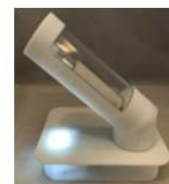
Flagship store

Maison KOSÉ Omotesando

User experience proof of concept

A shopping experience that is contact-free from entering the store to the receipt of merchandise

1. Automatic testing device (contact-free)
2. Online communications
3. Automatic sampling service (contact-free)
4. Cashless payments *cash is not accepted
5. OMO (online-merge-offline) purchases (use e-commerce to buy items seen in the store) *starting in or after April 2021



1. Automatic testing device (contact-free)



2. Online communications



3. Automatic sampling service (contact-free)

DECORTÉ

◆ Celebrating the 50th Anniversary of DECORTÉ
Globally recognized as a brand that provides distinctive beauty



Brand ambassador: Brie Larson



The brand emblem

The DECORTÉ brand message

English: Embrace your true beauty.
(あなたの本当の美しさを慈しむ)

Japanese: 満ちてくる誇り。美の勲章。

Chinese: 为尽善尽美的你 倾献勋章
(あなたの完璧な美のため 勲章を献ずる)

Brie Larson is an American actress who was born in Sacramento, California. She is the winner of the 2016 Oscar for Actress in a Leading Role for her performance in the 2015 movie Room. She is best known for her title role as a super hero in the 2019 movie Captain Marvel, which grossed a remarkable \$400 million worldwide. She has appeared in many other movies, including Kong: Skull Island (2017), Avengers: Endgame (2019) and Just Mercy (2019).

DECORTÉ

- ◆ The world's first DECORTÉ new concept design shop will open in Shanghai



Brand ambassador (Asia)
Zhou Xun

SEKKISEI

雪肌精

- ◆ Using China's rapidly growing Hainan Island as a key component of activities for the DECORTÉ and SEKKISEI brand strategies

-Plan to consider alliances with global retailers not yet handling these brands and the expansion of sales of the two brands to Europe, USA and Oceania-

Plan to start operating SEKKISEI global sales counters in 2021



DECORTÉ department store counters in China

December 31, 2017	December 31, 2018	December 31, 2019	October 31, 2020
11	18	27	36

tarte
high-performance naturals™

- ◆ Tarte • Plan to start selling products in Poland and Portugal



Sephora stores in Europe

*As of September 30, 2020

France	124
Denmark	8
Sweden	6
Germany	21
Spain	39
Poland	39
Portugal	7
Total	244

DECORTÉ



October 2020
Launch DECORTÉ AQ MELIORITY
base makeup series



December 2020
Launch new KIMONO
fragrance series

ALBION



October 2020
Launch ALBION HERBAL OIL
TRINITY FUSION

INFINITY KOSÉ



October 2020
The first refinements in 10
years to PRESTIGIOUS, the
preeminent line of INFINITY
brand products

The laboratory creates **more KOSÉ fans** in Japan and other Asian countries by providing customers with **innovative ideas** that are not restricted by conventional thinking or assumptions in order to constantly produce **outstanding products**



The laboratory, completed in 2019, is the nucleus of KOSÉ research involving advanced technologies to achieve the goals of VISION2026 and the Research Laboratory Vision

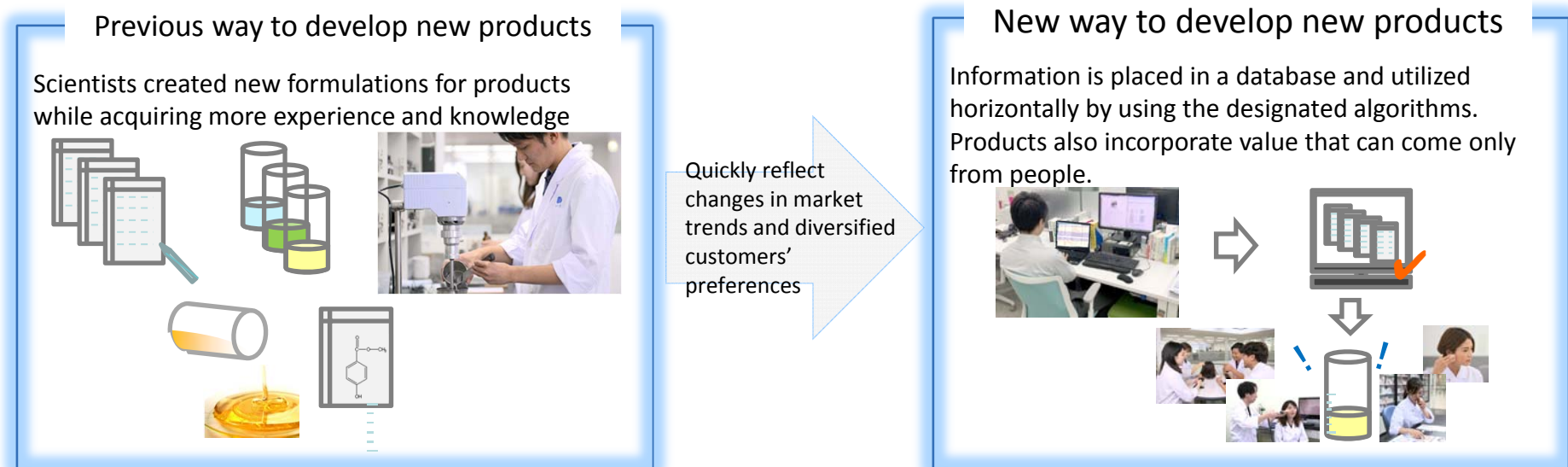
1) Advanced dermatology research to enable customers to achieve the appearance they dream of

✓ 2) Sensitivity and data science research to be a source of beauty that customers truly want

3) Quality assurance and product formulation research for customers' confidence in KOSÉ products and a sustainable future

2) **Sensitivity and data science research** to be a source of beauty that customers truly want

I. Combine the input of people and computers for establishing new manufacturing methods that go beyond ideas that people alone can create



II. Use data science to supply products and services that precisely match the requirements of each customer

Developing algorithms for recommending specific products to customers by using data analysis, image analysis, machine learning and other techniques to determine the past, present and probable future characteristics of the face, skin or other part of the body

- ◆ No change in the basic policy of strengthening manufacturing in Japan, but the factory plan has been revised as follows because of COVID-19

(1) Major reexamination of the original concept for the factory's design

Original: High-volume output (automated) due to priority placed on meeting the rapid growth in demand

Now: A factory that can evolve and expand with flexibility in order to reflect changes in demand, shifts in category mix, new technologies and other events

(2) More measures for sustainability

Original: Goal was to build an environmentally responsible factory with outstanding performance in terms of economics and functions

Now: More measures to meet even higher demands concerning sustainability and environmental responsibility

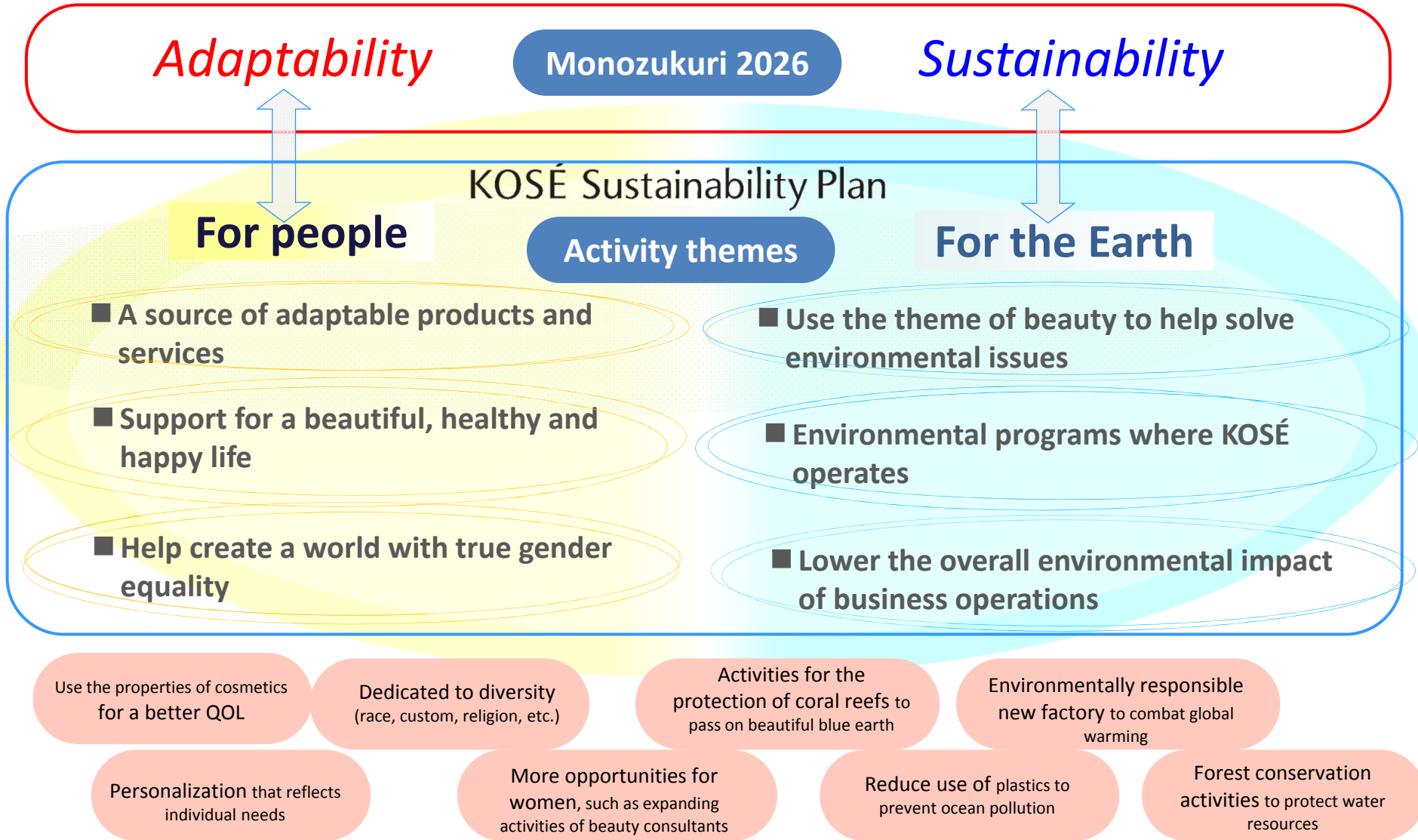
Example: A review of the new factory's energy strategy is needed in order to reflect the Japanese government's recently announced goal of net-zero greenhouse gas emissions by 2050

(3) Responses to new life styles as people live with COVID-19

The factory will produce new categories of products in order to meet customers' needs associated with the COVID-19 crisis.

*The factory will be redesigned to comply with additional regulatory requirements, such as those of the Fire Service Act and Alcohol Business Act, in order to manufacture sanitizing products, a category where demand is very strong.

Creating Beauty in a Sustainable World



1. 1H FY03/2021 Results of Operations

Shinichi Mochizuki, Senior Executive Officer & CFO

2. Topics in the Second Quarter and Activities in the Third Quarter and Afterward

Kazutoshi Kobayashi, President & CEO

3. Supplementary Information

Become a company with exceptional customer loyalty

- A portfolio filled with extremely appealing brands -

Admired..... A company everyone knows, admires and gives due respect

One of a kind..... A distinctive company that is imbued with originality and similar to no other company

Irreplaceable..... A company that customers cannot live without, resulting in high ratios of repeat purchases and long-term customers



Become a company with a global presence

FY03/2027 Performance Targets

<p>Net Sales ¥500 billion</p> <hr style="border-top: 1px dashed #ccc;"/> <p>Operating Margin 16% or more</p> <hr style="border-top: 1px dashed #ccc;"/> <table style="width: 100%; text-align: center;"> <tr> <td>ROA</td> <td>ROE</td> </tr> <tr> <td>18% or more</td> <td>15% or more</td> </tr> </table>	ROA	ROE	18% or more	15% or more	<p>Overseas Sales Ratio –Initiatives to heighten KOSÉ’s global presence–</p> <p>35% or more → 50% or more FY03/2020: 32.1%</p> <hr style="border-top: 1px dashed #ccc;"/> <p>E-commerce/TR Sales Ratio –Initiatives to target the increasingly diverse preferences of consumers–</p> <p>15% or more → 25% or more (E-commerce: 7% or more; TR: 18% or more) FY03/2020: 17.1%</p>
ROA	ROE				
18% or more	15% or more				

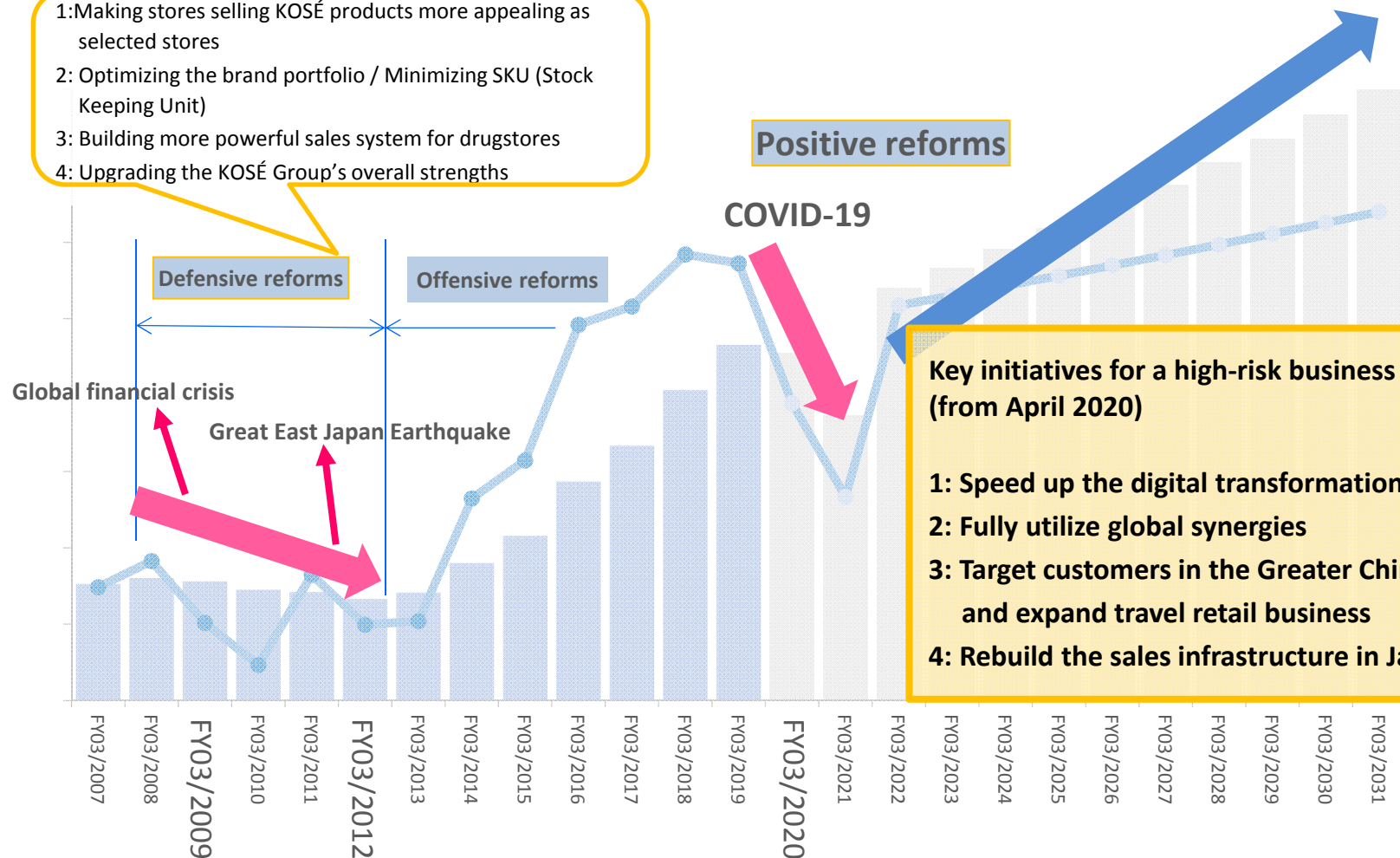
Global Benchmarks

Euromonitor Premium Beauty and Personal Care Ranking

Moving up to the top 8 in the world ranking

Use know-how gained during past crises to transform this crisis into opportunities and reach the 2026 sales goal of ¥500 billion

- 1: Making stores selling KOSÉ products more appealing as selected stores
- 2: Optimizing the brand portfolio / Minimizing SKU (Stock Keeping Unit)
- 3: Building more powerful sales system for drugstores
- 4: Upgrading the KOSÉ Group’s overall strengths



Due to the sudden change in market conditions, a clear focus on steps needed for faster growth accompanied by rigorous actions to accomplish goals

Three growth strategies

Accelerate globalization of brands

Proactively develop unique products

Explore new growth domains

Two value creation vectors

Use **digital technology** for more and better personal customer experiences

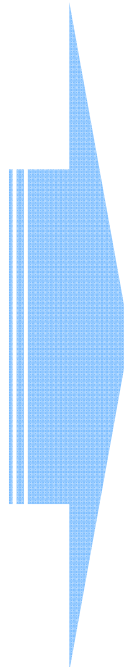
Focus on unique forms of value by utilizing external resources and technologies

Three business foundations

Build a sound foundation for the company growth

Promote **diversity and inclusion**

Develop a **sustainability strategy** spanning the entire value chain



Speed up the digital transformation

- Use Maison KOSÉ to reinforce brand development activities and provide new experiences for customers
- Establish the KOSÉ Beauty Platform and accelerate e-commerce growth in Japan and other countries
- Establish and reinforce the internal framework for using digital technologies

Fully utilize global synergies

- More KOSÉ-ALBION know-how sharing and cooperation for overseas growth
- More KOSÉ-Tarte know-how and resource sharing and joint activities

Target Chinese customers and expand travel retail business

- Start Tmall sales of COSME DECORTE AQ and SEKKISEI MYV/Make ALBION stronger
- Expand travel retail operations on a global scale

Reinforce current operations in Japan and create new value

- Structural transformation to improve profitability in Japan
- Create distinctive forms of value by combining existing business strengths with external resources (Open innovation/Beauty salon market and Pharmaceutical market)

Online/offline customer experiences by utilizing Maison KOSÉ and KOSÉ Beauty Platform

Experiences possible only online

Online counseling with the same high quality as at stores and extensive content for precisely meeting customers' needs

March 2020

Start of employee content distribution

→ Beauty consultants use Maison KOSÉ to post make-up pictures and skin care product information. Strengthening ties with e-commerce and the online provision of product information.



April 2020

#Stay Home Campaign

→ Temporarily increased the number of brands on KOSÉ's e-commerce site as people stay at home because of the COVID-19 crisis. DECORTÉ generated a very strong positive response.

On/offline linkage for strong ties with customers



Experiences possible only offline

Stores are a place for new communications where digital technology and hands-on experience converge. In a quest for next-generation beauty experiences, we provide innovative services that cover a broad spectrum of customers' needs.



December 2019

Opened Maison KOSÉ Ginza

Visual merchandising (VMD) encompassing many brands for more convenience, sales of Tarte products in Japan, and the use of digital technology to create a variety of experiences involving beauty

Overcoming challenges and aiming for more growth through the borderless sharing of resources to enable every company to use all of its strengths

ALBION

- Build a stronger organization for overseas operations and strengthen activities involving Tmall
- Concentrate on increasing the number of customers in Japan
- Enlarge and upgrade manufacturing, the key to creating products = A new factory will start operating in August

Tarte

- Continue marketing activities focused on this brand's core identity
- Maintain and increase the market shares of core categories
- Sell products in more areas (Europe)

KOSÉ COSMEPORT

- Focus resources on making softymo and SUNCUT® the next flagship brands along with CLEAR TURN
- Establish this brand in Asia, using China as the base, and strengthen sales activities in Asia

Using anniversary years of two KOSÉ major brands to step up global brand building activities



DECORTÉ

DECORTÉ reaches its 50th anniversary



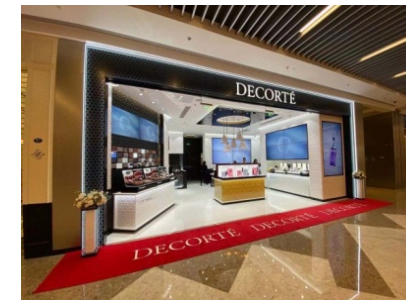
雪肌精

SEKKISEI reaches its 35th anniversary

An even more powerful brand strategy for China and stronger and more expansive travel retail operations

<China>

- In addition to current Beijing and Shanghai operations, target southern China, which has excellent growth prospects, by reinforcing strategic actions in this area
- Accelerate digital strategy
 - Increase activities for cooperation with the Alibaba Group
 - Substantial online advertising expenditures (An increase of 80% YoY in FY03/2021)
- Sales channel structural reforms
 - More department store counters
 - Faster addition of SEKKISEI areas at Sephora stores in China



<Travel retail>

- New alliances with global retailers
 - Consider alliances with new business partners and development of/expansion to new regions (Europe, Middle East)
 - Stronger relationships with major duty-free retailers
- Establish KOSÉ Travel Retail Co., Ltd.
 - Create synergies between duty-free business targeting duty-free stores, in-flight sales and other activities and the amenity products business (in-flight, hotels)



Structural transformation to improve profitability in Japan and creation of distinctive forms of value by combining existing business strengths with external resources

Reorganization of existing business in Japan

- Reorganize operations to build a more powerful sales infrastructure in Japan
- More KOSÉ global sales counters to strengthen the appeal of KOSÉ brand value
- Even stronger ties among brands and creation/development of “star products” for every brand



Cooperation with external partners

New activities in FY3/2020



- July 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 (Negotiations have started with retailers and sales are to begin in fall 2020)

Skin care pharmaceuticals



- Dec. 2019 KOSÉ selected Sunshine Delight at the Demo Day of the KOSÉ accelerator program, which aims to use external partners for the joint creation of new forms of value
- Plan to start demonstration trials in FY03/2021 for commercialization of Sunshine Delight in FY03/2022
- One goal is contributing to the Sustainable Development Goals through this UV project for protecting the skin and overall health from UV rays

Sunscreen for nursery schools

Ongoing joint activities



Personalized skin evaluation



Nail printer



Skincare and makeup products for hair salons



Quantum computing

KOSÉ Sustainability Principles

Creating Beauty in a Sustainable World

Activity themes

For people

A source of adaptable products and services
Support for a beautiful, healthy and happy life
Help create a world with true gender equality

For the Earth

Use the theme of beauty to help solve environmental issues
Environmental programs where KOSÉ operates
Lower the overall environmental impact of business operations

◆ New ideas for personalized beauty care



◆ SEKKISEI plastic reduction campaign speeds up



- Started collecting used containers on September 10
SEKKISEI Earth Beauty Program
- Started on November 1 at 33 AEON Group stores nationwide in Japan

◆ Foundation and other products that match many skin colors



ADDICTION base makeup
Five types, max. of 17 colors, 108 items



Tarte Concealer (30 shades)

◆ Started a full-scale research to determine how ingredients of cosmetics affect coral



The fiscal year end of KOSÉ will change from March 31 to December 31

One more step for the globalization of the KOSÉ Group

Purpose

Unifying KOSÉ's fiscal year with the financial periods of overseas consolidated subsidiaries will support the unified operation of businesses worldwide and facilitate the timely and proper disclosure of financial and other corporate information. This is expected to improve the transparency and quality of KOSÉ's management.

Fiscal Year Change and Timing

Current fiscal year end: March 31 (until March 31, 2021)

New fiscal year end: December 31 (from December 31, 2021)*

*The initial period ending December 31, 2021 will be a transitional nine-month fiscal period.

	FY03/2020			FY03/2021									FY12/2021 (Nine-month fiscal period)									FY12/2022														
After unification	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Consolidated subsidiaries in Japan				FY ending March 2021									FY ending December 2021 (transitional period)									FY ending December 2022														
Overseas group companies				FY ending December 2020									FY ending December 2021									FY ending December 2022														

General Meeting of Shareholders in June (tentative)

Note: The change in the fiscal year end will require the approval of an amendment to the Articles of Incorporation at the 79th Annual General Meeting of Shareholders to be held in June 2021.