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# Results of Operations

## Three Months Ended June 30, 2021

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KOSÉ Corporation

July 30, 2021

- Fiscal year end change to December 31 beginning in FY2021  
The consolidated financial statements for the transitional fiscal period ending on December 31, 2021 will include the following periods:
  - KOSÉ and its consolidated subsidiaries in Japan with a March 31 fiscal year end:  
April-December 2021
  - Consolidated subsidiaries with a December 31 fiscal year end:  
January-December 2021
  
- The KOSÉ Group applies the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2020) and the Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2020) from FY2021.

\* Adjusted results of operations and their changes

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2020) and the Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2020) have been applied retrospectively.

These comparisons have not been audited by the independent auditor and are provided solely for reference purposes.

## Small sales increase but strong earnings growth due to cost controls

- ✓ Net sales                      ¥58.7 billion (up 2.7% YoY; up 2.4% after excluding the effects of changes in foreign exchange rates)

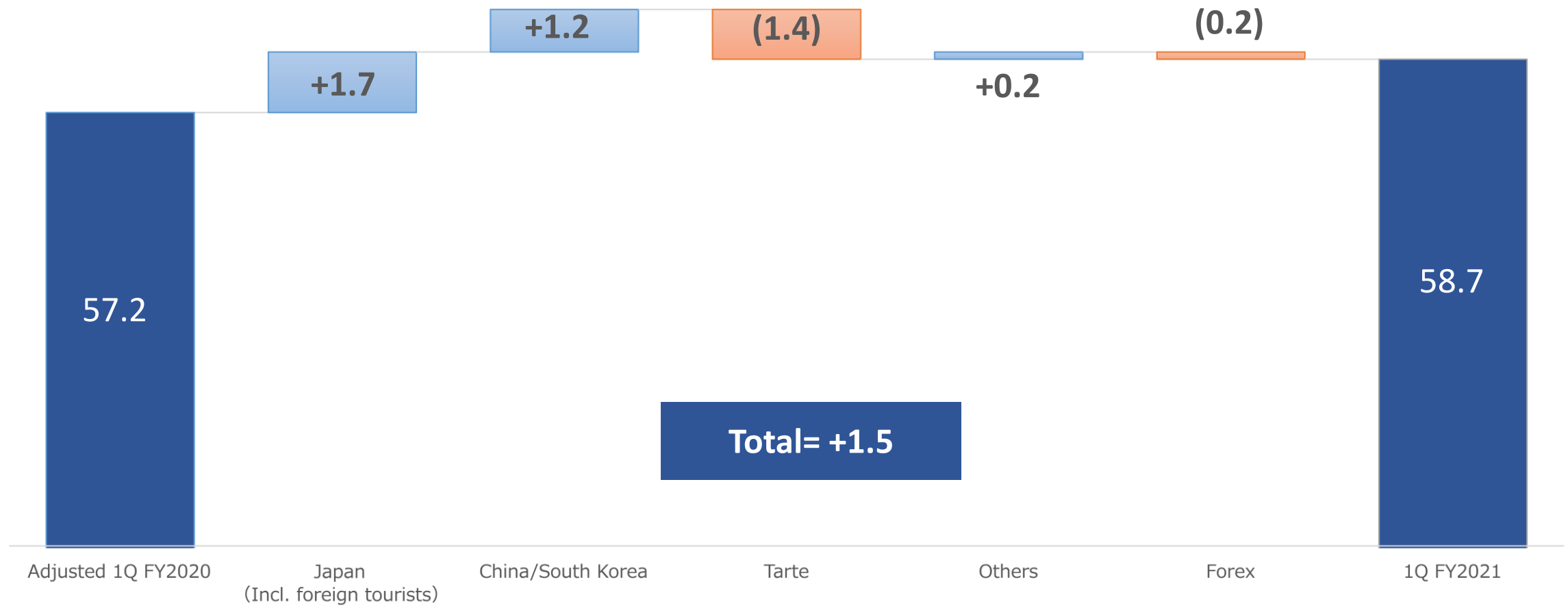
  - Sales in Japan and China increased following the 2020 downturn
  
- ✓ Operating profit            ¥3.4 billion (up 211.6% YoY)

  - A big increase due to sales growth and cost controls for all operations

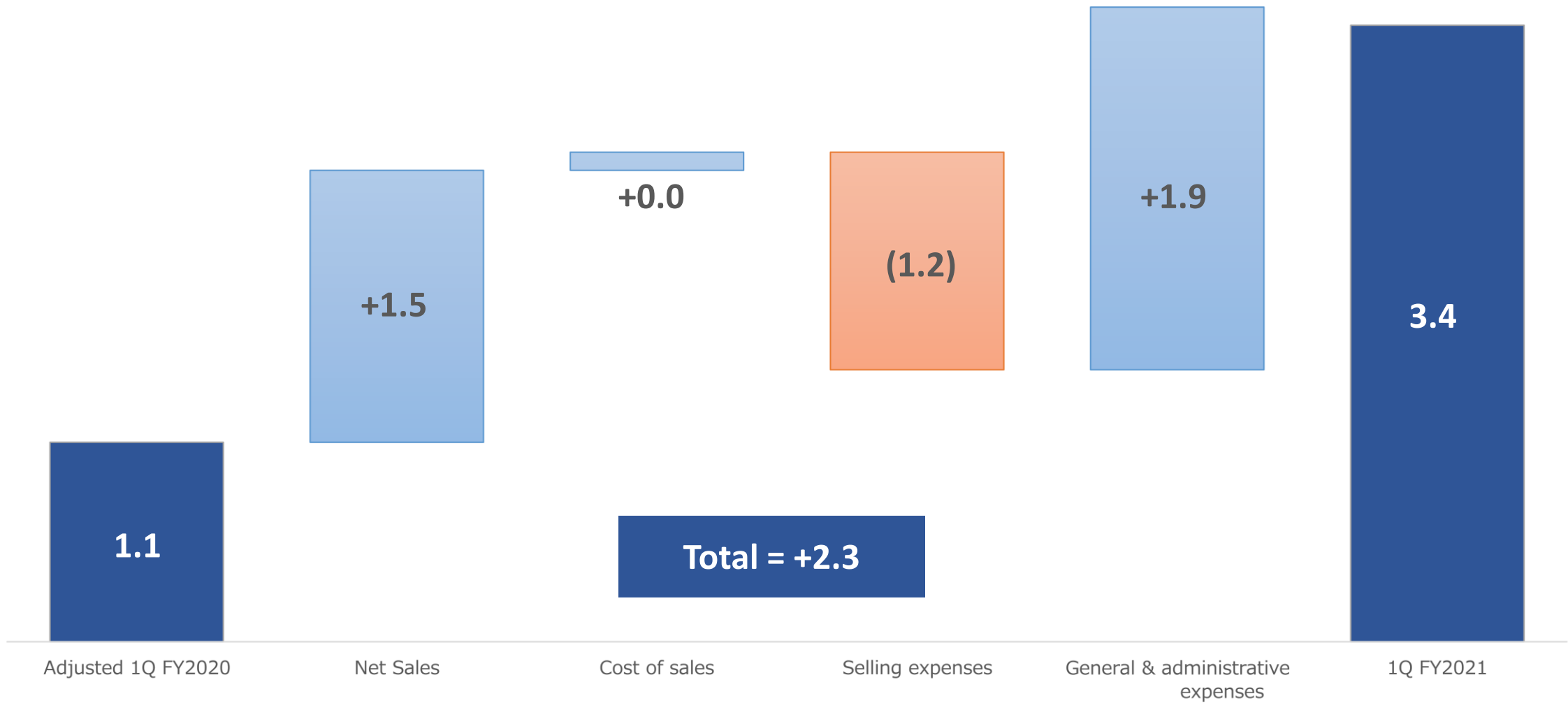
	Initial outlook	Progress	Valuation 1Q FY2021
Japan	Mid-single-digit increase	Weak consumer sentiment as people stay home for safety but strong e-commerce sales growth. Expect a recovery in the second half as more people are vaccinated.	▲
China	+20%	Higher sales in all channels as the pandemic ended quickly in China. Aiming for more market share growth by using existing and new stores, many promotions, and other activities.	○
South Korea	+10%	Travel restrictions still in effect. Expect supply problems for some problems to end during the summer.	▲
Europe & USA (Tarte)	Mid-single-digit increase	Economies are recovering along with vaccinations. e-commerce sales continue to increase and stores are reopening. But sales still weak at stores in urban locations.	○

1Q						
(billion yen)	Adjusted FY2020		FY2021		YoY change (amount)	YoY change (ratio)
	Amount	Ratio to net sales	Amount	Ratio to net sales		
Net sales	57.2	100.0%	<b>58.7</b>	<b>100.0%</b>	<b>+1.5</b>	<b>+2.7%</b>
Cost of sales	16.1	28.3%	<b>16.0</b>	<b>27.4%</b>	<b>(0.0)</b>	<b>(0.6)%</b>
SG&A expenses	39.9	69.8%	<b>39.2</b>	<b>66.7%</b>	<b>(0.7)</b>	<b>(1.8)%</b>
Operating profit	1.1	1.9%	<b>3.4</b>	<b>5.9%</b>	<b>+2.3</b>	<b>+211.6%</b>
Ordinary profit	1.5	2.7%	<b>3.7</b>	<b>6.4%</b>	<b>+2.1</b>	<b>+139.6%</b>
Profit before income taxes	2.5	4.4%	<b>3.6</b>	<b>6.3%</b>	<b>+1.1</b>	<b>+45.7%</b>
Profit attributable to owners of parent	1.5	2.8%	<b>2.3</b>	<b>4.0%</b>	<b>+0.7</b>	<b>+49.8%</b>
Net income per share	27.84 yen		<b>41.69 yen</b>		<b>+ 13.85 yen</b>	

(billion yen)

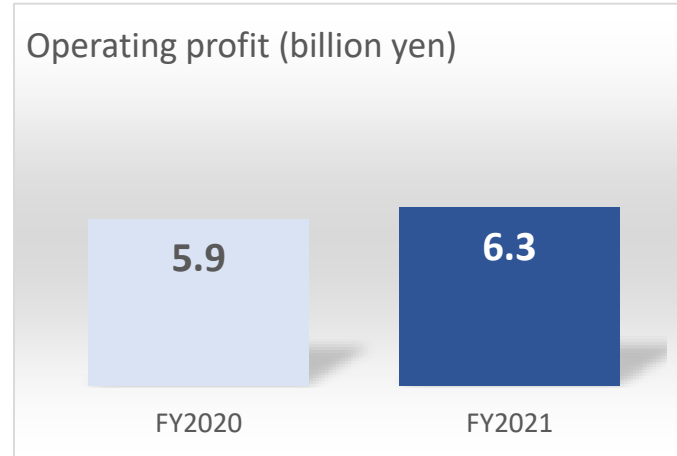
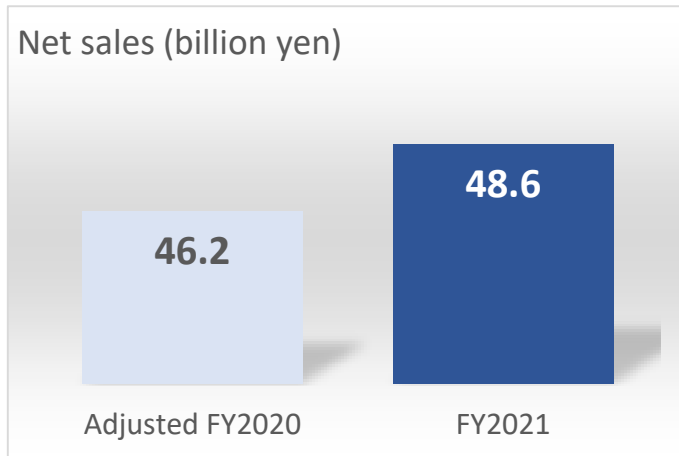


(billion yen)



# Sales and Operating Profit by Segment

## Cosmetics



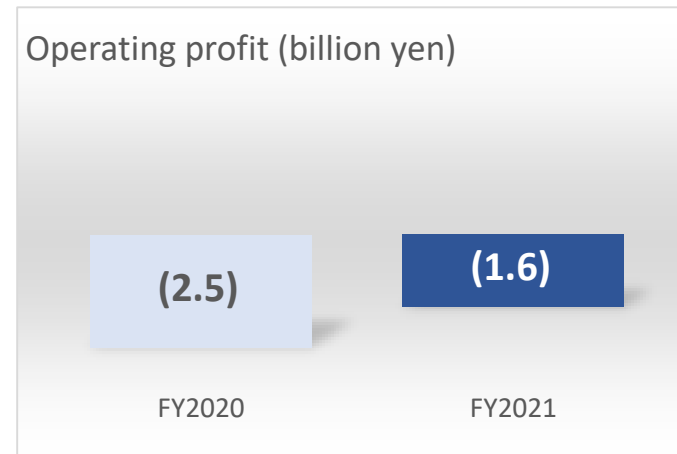
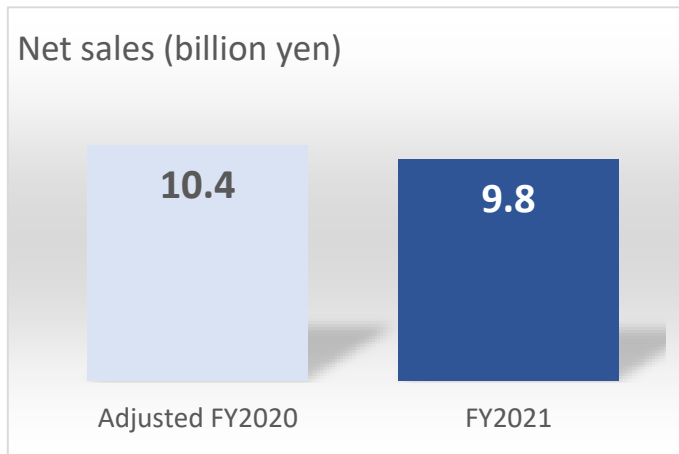
Operating margin

Period	Operating margin
FY2020	13.0%
FY2021	13.0%

- Net sales
- Higher sales in Japan/China following the 2020 downturn
  - Strong DECORTÉ sales in all channels
  - SEKKISEI sales are recovering

- Operating profit
- Cost of sales ratio decreased because of strong DECORTÉ sales and a recovery in SEKKISEI sales
  - SG&A expenses decreased due to cost controls and more efficient sales promotion activities

## Cosmetaries



Operating margin

Period	Operating margin
FY2020	-
FY2021	-

- Net sales
- Slow sales in Japan as people stayed home due to the pandemic

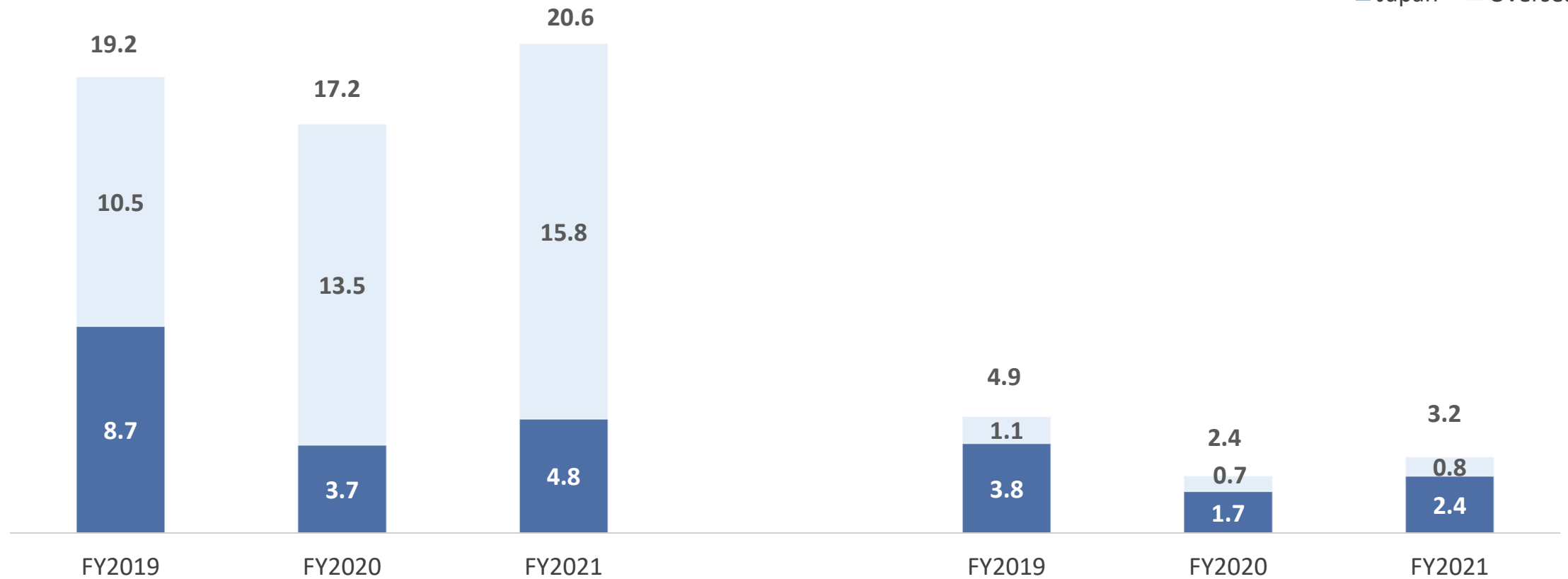
- Operating profit
- Cost of sales increased due to a negative change in product mix and an increase in discarded merchandise
  - SG&A expenses decreased due to cost controls and more efficient sales promotion activities

(billion yen)

## DECORTÉ

## SEKKISEI

■ Japan ■ Overseas





# Global Sales of Major Group Companies (after adjustment)

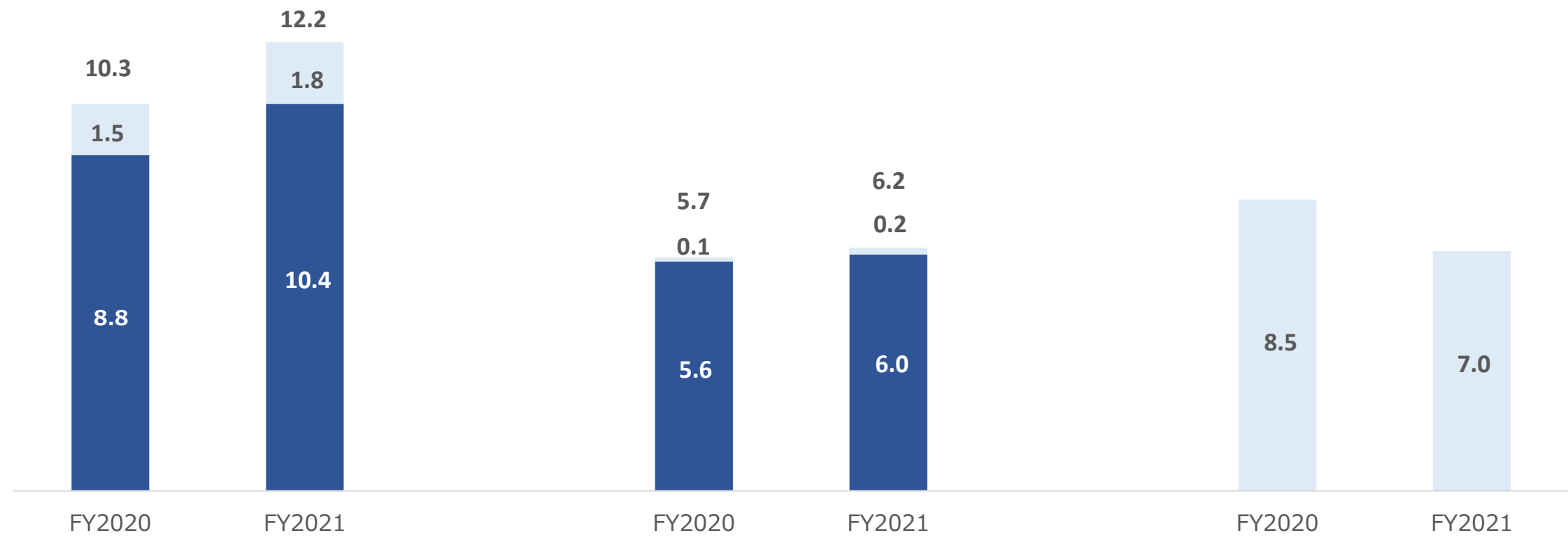
(billion yen)

## ALBION CO., LTD.

## KOSÉ Cosmeport Corp.

## Tarte, Inc

■ Japan ■ Overseas



# Net Sales by Region (after adjustment)

Sales in China continue to increase and overseas sales were 42.5% of total sales.

(billion yen)	Adjusted FY2020		FY2021		YoY change (amount)	YoY change (ratio)
	Amount	Ratio to net sales	Amount	Ratio to net sales		
Japan	32.0	56.0%	<b>33.7</b>	<b>57.5%</b>	<b>+1.7</b>	<b>+5.4%</b>
Asia	16.6	29.1%	<b>17.8</b>	<b>30.4%</b>	<b>+1.2</b>	<b>+7.4%</b>
North America	7.6	13.4%	<b>6.4</b>	<b>11.0%</b>	<b>(1.1)</b>	<b>(15.6)%</b>
Other	0.8	1.5%	<b>0.6</b>	<b>1.1%</b>	<b>(0.2)</b>	<b>(26.6)%</b>
Total	57.2	100.0%	<b>58.7</b>	<b>100.0%</b>	<b>+1.5</b>	<b>+2.7%</b>
Overseas sales	25.1	44.0%	<b>24.9</b>	<b>42.5%</b>	<b>(0.2)</b>	<b>(0.8)%</b>

## Sales were higher year on year , e-commerce also continued to grow

(billion yen)	Adjusted FY2020	FY2021	YoY change (amount)	YoY change (ratio)
1Q	32.0	33.7	+1.7	+5.4%

### KOSÉ

Overall

- Sales were higher following the 2020 downturn but still below the pre-pandemic level
- E-commerce sales continue to increase as people stay home during the pandemic

High prestige

- Specialty store sales have almost recovered to the pre-pandemic level and department store sales are recovering, but sales are still below the 2019 level
- Existing DECORTÉ and ALBION customers are returning

Prestige

- Skin care sales growth outpaced the market; point makeup sales were weak
- Carté HD increased its market share

Cosmetaries

- Cleansing and sunscreen sales are recovering from the 2020 downturn
- Sales were affected by product returns associated with the updated line of FASIO products

### Market Trends

- Return of economic activity restrictions due to the April state of emergency declaration and extension of measures to prevent the spread of COVID-19
- A slow recovery of the skin care category; strong hair care product sales despite the pandemic
- Diversification of procurement methods by stores, such as Online Merge Online (merging of online and offline retailing)
- Expect consumer spending to start recovering slowly in the fall of 2021 as more people are vaccinated

### Strategies for FY2021

Overall

- Increase the use of distribution e-commerce
- Start the DECORTÉ online boutique (official web shop)
- Start operation of the online counseling service, DECORTÉ Personal Beauty Concierge
- End sales activities for nine brands
- Start providing online counseling (ALBION)

## Strong sales in all channels in China one year after the COVID-19 outbreak

(billion yen)	Adjusted FY2020	FY2021	YoY change (amount)	YoY change (ratio)	
1Q	16.6	<b>17.8</b>	<b>+1.2</b>	<b>+7.4%</b>	
China *note	Online	2.9	<b>3.1</b>	<b>+0.2</b>	<b>+8.4%</b>
	Offline	1.0	<b>1.8</b>	<b>+0.8</b>	<b>+77.2%</b>
	Travel retail	4.2	<b>8.2</b>	<b>+4.0</b>	<b>+94.1%</b>
	Total	8.1	<b>13.1</b>	<b>+5.0</b>	<b>+61.3%</b>

Note: KOSÉ and ALBION. Before applying Accounting Standard for Revenue Recognition for China online, offline and Travel retail.

### KOSÉ

China	<ul style="list-style-type: none"> <li>Travel retail is driving sales growth; sales at department stores are increasing too</li> <li>Online demand is smaller than planned but continues to increase</li> </ul>
South Korea	<ul style="list-style-type: none"> <li>Travel retail sector was weak in January-February but profitability remained steady</li> </ul>
Taiwan	<ul style="list-style-type: none"> <li>Sales were higher than one year earlier and higher than planned</li> </ul>

### Market Trends

- China
  - Strong sales of cosmetics even though government restrictions on activities held down the economy early in 2021
- South Korea
  - Tourists are still unable to travel to South Korea
- Taiwan
  - January-March sales were higher following the 2020 downturn but the outlook is unclear

### Strategies for FY2021

- |             |  |
|-------------|--|
| China       | <ul style="list-style-type: none"> <li>More stores selling KOSÉ products (50 department stores, about 11 stores on Hainan Island*note)<br/>Note: Plan to open DECORTÉ stores in 2021</li> <li>Effectively use live commerce (streaming video + e-commerce)</li> <li>50th anniversary events for DECORTÉ</li> <li>SEKKISEI activities targeting younger people, primarily generation Z</li> </ul> |
| South Korea | <ul style="list-style-type: none"> <li>Increase ability to supply popular products</li> </ul>  |

## USA is recovering because of progress with vaccines

(billion yen)	Adjusted FY2020	FY2021	YoY change (amount)	YoY change (ratio)
1Q	8.5	7.1	(1.4)	(16.8)%

### Tarte

USA	<ul style="list-style-type: none"> <li>Stores are resuming normal operations and e-commerce continues to grow</li> <li>Sales still weak at urban stores, where tourists are a large share of sales</li> </ul>
Europe, others	<ul style="list-style-type: none"> <li>Lockdowns are delaying the opening of new stores</li> </ul>

### Market Trends

- USA
  - The makeup market is recovering and the skin care market is growing during the pandemic
  - Clean beauty and personalization remain key themes
- Europe
  - Only a limited economic downturn despite lockdowns and other measures involving the pandemic

### Strategies for FY2021

USA (Tarte)	<ul style="list-style-type: none"> <li>Using Kohl's, Target and other stores to enlarge the sales network</li> <li>Strengthening the concealer, mascara and other key product categories</li> <li>Strengthening activities for Awake by tarte skin care products</li> </ul>
Europe, others	<ul style="list-style-type: none"> <li>Expand operations to new regions (Tarte)</li> <li>Plan to start selling products on Tmall International in August (Tarte)</li> <li>To raise awareness of the DECORTÉ brand, "Kimono" promotions are launched in the fragrance market in Europe</li> </ul>

## Total assets remain at over ¥300 billion and equity ratio above 70%; inventories increase

(billion yen)	As of March 31, 2021		As of June 30, 2021		Change
	Amount	Share	Amount	Share	Amount
Current assets	205.0	66.5%	<b>201.0</b>	<b>65.8%</b>	<b>(3.9)</b>
Cash and deposits	103.3	33.5%	<b>100.2</b>	<b>32.8%</b>	<b>(3.1)</b>
Accounts receivable	39.4	12.8%	<b>32.5</b>	<b>10.6%</b>	<b>(6.8)</b>
Inventories	57.3	18.6%	<b>61.4</b>	<b>20.1%</b>	<b>+4.1</b>
Non-current assets	103.3	33.5%	<b>104.6</b>	<b>34.2%</b>	<b>+1.2</b>
Property, plant and equipment	62.8	20.4%	<b>61.9</b>	<b>20.3%</b>	<b>(0.9)</b>
Intangible assets	14.1	4.6%	<b>14.3</b>	<b>4.7%</b>	<b>+0.1</b>
Total assets	308.3	100.0%	<b>305.6</b>	<b>100.0%</b>	<b>(2.6)</b>
Current liabilities	61.6	20.0%	<b>55.7</b>	<b>18.2%</b>	<b>(5.9)</b>
Accounts payable	20.2	6.6%	<b>25.7</b>	<b>8.4%</b>	<b>+5.5</b>
Short-term borrowings	7.6	2.5%	<b>4.1</b>	<b>1.3%</b>	<b>(3.5)</b>
Non-current liabilities	5.4	1.8%	<b>6.4</b>	<b>2.1%</b>	<b>+0.9</b>
Total liabilities	67.0	21.8%	<b>62.1</b>	<b>20.3%</b>	<b>(4.9)</b>
Total net assets	241.2	78.2%	<b>243.5</b>	<b>79.7%</b>	<b>+2.2</b>
Shareholders' equity	225.5	73.1%	<b>227.8</b>	<b>74.5%</b>	<b>+2.3</b>
Non-controlling interests	15.7	5.1%	<b>15.7</b>	<b>5.1%</b>	<b>(0.0)</b>
Total liabilities and net assets	308.3	100.0%	<b>305.6</b>	<b>100.0%</b>	<b>(2.6)</b>

## Overall cash flow remained stable despite a decrease of ¥3.1 billion in cash

(billion yen)	FY2020	FY2021	Change
	Amount	Amount	
Profit before income taxes	+2.5	<b>+3.6</b>	<b>+1.1</b>
Depreciation	+2.3	<b>+2.6</b>	<b>+0.2</b>
Decrease (increase) in trade receivables	+3.9	<b>+6.8</b>	<b>+2.8</b>
Decrease (increase) in inventories	(7.4)	<b>(4.1)</b>	<b>+3.3</b>
Increase (decrease) in trade payables	+5.0	<b>+5.5</b>	<b>+0.5</b>
Others	(15.1)	<b>(9.7)</b>	<b>+5.3</b>
<b>Cash flows from operating activities</b>	<b>(8.6)</b>	<b>+4.9</b>	<b>+13.5</b>
Capital expenditures	+3.8	<b>+1.1</b>	<b>(2.6)</b>
<b>Cash flows from investing activities</b>	<b>(0.7)</b>	<b>(1.7)</b>	<b>(1.0)</b>
Funds procured from external sources and repayments	+7.0	<b>(3.5)</b>	<b>(10.5)</b>
Cash dividends paid	(5.6)	<b>(3.6)</b>	<b>+2.0</b>
Acquisition of stock	(4.9)	-	<b>+4.9</b>
<b>Cash flows from financing activities</b>	<b>(3.7)</b>	<b>(7.1)</b>	<b>(3.3)</b>
Effect of exchange rate change on cash and cash equivalents	(1.2)	<b>+0.7</b>	<b>+2.0</b>
Change in cash and cash equivalents	(14.2)	<b>(3.1)</b>	<b>+11.1</b>
Cash and cash equivalents at beginning of period	70.2	<b>80.0</b>	<b>+9.7</b>
Cash and cash equivalents at end of the quarterly period	56.0	<b>76.9</b>	<b>+20.8</b>



LIPOSOME ADVANCED REPAIR SERUM is formulated as an aging care beauty serum

## ◆ First update of LIPOSOME since its launch 29 years ago

- **Online announcement for cosmetics retailers, journalists and others**

→ June 2021 on YouTube

\*Recorded the highest viewership ever for a DECORTÉ announcement

- **Start of sales**

→ Sales of the revised LIPOSOME products will begin in September 2021 in Japan and in January 2022 worldwide.

2022 will be a year for making the LIPOSOME brand even stronger for rapid growth of sales worldwide.

## ◆ The first EC website for DECORTÉ

- **DECORTÉ online boutique (official web shop)**

→ The DECORTÉ website will sell all DECORTÉ products. Trial operation is scheduled to begin in September 2021.

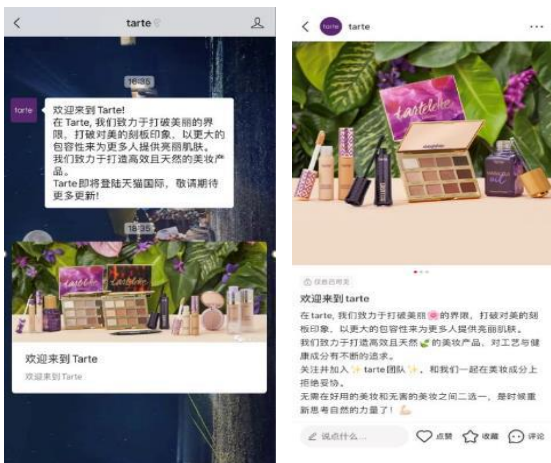
## ◆ A new channel for counseling

- **DECORTÉ Personal Beauty Concierge**

→ Plan to start providing online counseling by dedicated beauty consultants via the specialized platform on September 16, 2021



## ◆ Promotions on China's big three SNS to prepare for Tmall International launch



- Tarte plans to start selling products in China through Tmall International, the company's first use of a cross-border e-commerce sales channel.
- Tarte has started distributing information on China's big three SNS to prepare for the August start of sales.

## ◆ Speeding up activities for worldwide sales of SUNCUT products



- Cai Xukun, a well-known Chinese singer, dancer and actor, will continue to be the global ambassador for SUNCUT.
- More activities for raising awareness in many countries of the SUNCUT brand for sunscreen products.

## ◆ Tarte starts selling products at Sephora stores in Canada and Italy



- Sales of Shape Tape Concealer started at Canada Sephora stores in May.
- Sales of Tarte products started at Italy Sephora stores in May.

## ◆ Participation in the China Beauty Expo 2021



- The 26th China Beauty Expo was held in Shanghai from May 12 to 14.
- For establishing globally recognized brands, KOSÉ displayed SUNCUT products as well as skin care and hair care products.

◆ Manufacturing and services centered on “adaptability”

# Adaptability

Use the perspective of “adaptability” for developing all products, using products and experiences for the creation of value.

Announce information about activities concerning the three perspectives of adaptability: Physical, Mind and Social Attributes at the KOSÉ Sustainability Website.

◆ Use the theme of beauty to help solve environmental issues

## The SEKKISEI “SAVE the BLUE” Project



This project, which started in 2009, uses a portion of sales of SEKKISEI products to fund donations for the preservation of coral in Okinawa.

◆ Sustainability-conscious design

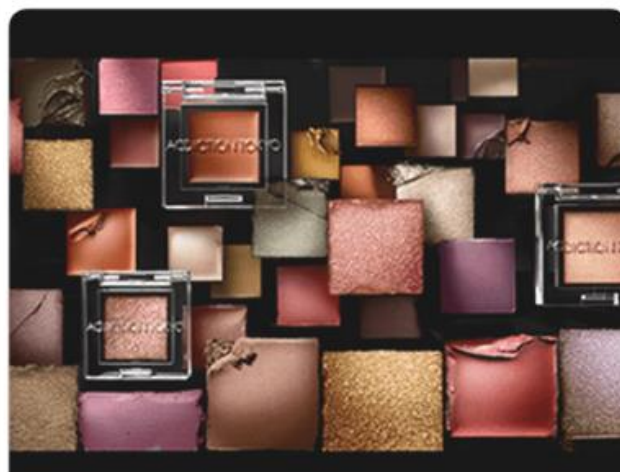
ALBION will use a pulp container for ALBION PRIMP POWDERLESST powder foundation, a new product to be introduced in August 2021. Activities to develop safe and environmentally responsible containers are continuing.



**Physical**

Personalized care for your skin and hair

more



**Mind Social Attributes**

Break the mold with your own style

more

# Supplementary Information

# Cost of Sales and SG&A Expenses

1Q							
(billion yen)	Adjusted FY2020		FY2021		Change amount	Change ratio	
	Amount	Ratio to net sales	Amount	Ratio to net sales			
Cost of sales	16.1	28.3%	16.0	27.4%	(0.0)	(0.6)%	
SG&A expenses	39.9	69.8%	39.2	66.7%	(0.7)	(1.8)%	
<Significant accounts>							
Selling expenses	Sales promotion	9.4	16.5%	9.3	15.9%	(0.1)	(1.1)%
	Advertising	3.1	5.4%	3.8	6.5%	+0.7	+23.6%
	Freightage and packing	3.1	5.5%	3.8	6.5%	+0.6	+20.2%
Subtotal		15.6	27.4%	16.9	28.9%	+1.2	+8.1%
General and administrative expenses	Personnel	14.8	25.9%	13.4	22.9%	(1.3)	(9.4)%
	Others	6.9	12.1%	6.3	10.8%	(0.5)	(8.5)%
	R&D	1.3	2.4%	1.3	2.3%	(0.0)	(1.7)%
	Depreciation	1.0	1.9%	1.1	1.9%	+0.0	+2.7%
Subtotal		24.2	42.4%	22.2	37.9%	(1.9)	(8.2)%

# Sales Growth by Business Segment

FY2020						FY2021
YoY changes in sales, %	1Q	2Q	3Q	4Q	1Q-4Q	1Q
Consolidated sales *note	(26.5)	(21.1)	(5.6)	(4.4)	(14.7)	+2.7
Cosmetics *note	(25.4)	(21.8)	(0.8)	(3.1)	(13.3)	+5.1
High prestige	(22)	(19)	+1	+1	(10)	+11
DECORTÉ	(10)	(5)	+21	+39	+10	+20
ALBION	(34)	(24)	(7)	(6)	(19)	+16
Tarte	(17)	(36)	(16)	(42)	(29)	(17)
Prestige	(38)	(34)	(8)	(21)	(26)	+6
Cosmetaries *note	(29.7)	(17.9)	(22.3)	(6.7)	(18.7)	(5.8)
COSMEPORT	(32)	(19)	(22)	±0	(17)	+4
Other	(26)	(17)	(23)	(19)	(21)	(15)

Note: Figures are after applying the Accounting Standard for Revenue Recognition.

## ■ E-commerce

(billion yen)	Japan			China			Other Asian countries			North America, others			Total		YoY change
	2020	2021	YoY change	2020	2021	YoY change	2020	2021	YoY change	2020	2021	YoY change	2020	2021	
1Q	2.1	1.5	(26.6)%	2.9	3.1	+8.4%	0.1	0.1	+76.3%	1.4	1.8	+24.9%	6.5	6.6	+0.8%

## ■ Travel retail

(billion yen)	Japan			China			South Korea			Other Asian countries			Total		YoY change
	2020	2021	YoY change	2020	2021	YoY change	2020	2021	YoY change	2020	2021	YoY change	2020	2021	
1Q	0.1	0.1	(13.5)%	4.2	8.2	+94.1%	6.4	4.4	(30.7)%	0.1	0.1	(35.1)%	11.0	12.9	+17.5%

Note: The Accounting Standard for Revenue Recognition is not used because this information is solely for reference.



# FY2021 Outlook (No change from the initial forecast)

(billion yen)	FY03/2021		Adjusted FY2020		FY12/2021	
	Amount (billion yen)	Ratio to net sales	Amount (billion yen)	Ratio to net sales	Amount (billion yen)	Ratio to net sales
Net sales	279.3	100.0%	213.4	100.0%	<b>238.0</b>	<b>100.0%</b>
Cosmetics	218.4	78.2%	173.2	81.2%	196.7	82.6%
Cosmetaries	58.4	20.9%	38.2	17.9%	39.5	16.6%
Other	2.4	0.9%	1.9	0.9%	1.8	0.8%
Operating profit	13.2	4.8%	16.5	7.8%	<b>20.0</b>	<b>8.4%</b>
Ordinary profit	18.7	6.7%	19.0	8.9%	<b>20.5</b>	<b>8.6%</b>
Profit attributable to owners of parent	11.9	4.3%	13.9	6.6%	<b>14.2</b>	<b>6.0%</b>
Net income per share	210.11 yen		-		248.92 yen	
ROA		4.5%		-		6.8%
ROE		5.3%		-		6.5%
Capital expenditures		10.1		-		15.4
Depreciation		10.3		-		8.7

Adjusted comparisons *note (billion yen)	Adjusted comparisons *note (ratio)
+24.5	+11.5%
+23.4	+13.5%
+1.2	+3.4%
(0.1)	(8.0)%
+3.4	+20.8%
+1.4	+7.4%
+0.2	+1.5%

Foreign exchange rate (yen)		
Currency	Actual	Estimate
US Dollar	106.8	103.0
Chinese yuan	15.5	15.5
Korean won	0.09	0.09

Note: Adjusted comparisons are the changes between FY03/2021 results of operations for consolidated subsidiaries with a March year end that have been adjusted for the 2020 calendar year (January-December 2020) and the forecast for FY12/2021.

Area	Initial outlook	
Japan	Mid-single-digit increase	Expect a gradual recovery from the first half of the year, despite the decline in consumer awareness due to the refrain from going out due to the COVID-19 disaster, but we expect a full-scale recovery from the second half.
China	+20%	Continued high growth in all channels. Existing store growth and new stores are expected to drive earnings.
South Korea	+10%	Ongoing travel restrictions due to COVID-19. Although there is a relationship with the China TR, expect an increase of about 10% in 2021.
Europe & USA (Tarte)	Mid-single-digit increase	Although the pace of the spread of the COVID-19 infection is slowing down, the situation remains severe. Expect growth through expanded distribution in the U.S. and new Sephora stores in Europe.

# DECORTÉ



August 2021

DECORTÉ

Launch of ROUGE DECORTÉ (51 colors)

# ALBION

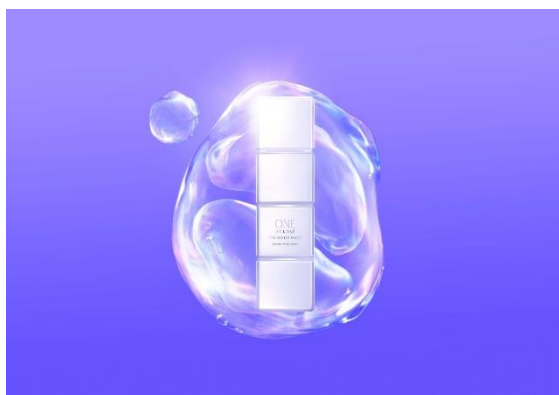


August 2021

ALBION

Launch of PIMP POWDERLESST (foundation)

# ONE BY KOSÉ



August 2021

ONE BY KOSE

Launch of THE WATER MATE moisture-retention lotion

# カルテHD



September 2021

Carté HD

Launch of three products including all-in-one beauty serum



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