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# Results of Operations

## Six Months Ended June 30, 2022

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KOSÉ Corporation

August 10, 2022

## **1. First Half (1H) 2022 Results of Operations**

**Shinichi Mochizuki, Director & CFO**

## **2. Progress Report of Basic Strategy in 2022 and Upcoming Initiatives**

**Kazutoshi Kobayashi, President & CEO**

## **3. Supplementary Information**

- Fiscal year end was changed to December 31 beginning in FY2021. Beginning with 2022, quarterly periods were changed as follows. Quarterly information for FY2021 in this presentation is also revised as follows for Japan and other countries.

1Q: January to March 2Q: April to June

3Q: July to September 4Q: October to December

- 2022 Earnings Announcement Schedule (tentative)

3rd quarter earnings announcement: Middle of November 2022

Full-year earnings announcement: Middle of February 2023

- Revenue recognition and quarterly period changes

\* Adjusted results of operations and their changes

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and the Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021) have been applied retrospectively to January to December 2021. Quarterly periods have been also changed.

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

\*Unless specified otherwise, numbers in this presentation are rounded down and percentages used for comparisons and changes are rounded off.

\*In this presentation, the January-June quarter of 2021 is used for prior-year comparisons of the same period.

\*Figures for the first half of 2021 (January-June) in this presentation have been examined. These figures differ from some of the information in the supplementary information for the presentation for the first quarter of 2022.

- ✓ **Net sales**      **¥130.6 billion:** up ¥5.5 billion (4.4%) YoY
  - Lockdowns in China significantly impacted sales, but first half sales increased mainly because of the growth of high-prestige brand sales at specialty cosmetics stores and department stores in Japan and higher sales at Tarte (U.S. and Europe). Sales were up 0.9% YoY after excluding foreign exchange rate changes.
  
- ✓ **Operating profit**      **¥7.2 billion:** up ¥3.2 billion (81.5%) YoY
  - Although the cost of sales ratio increased, operating profit was higher because of measures to hold down selling expenses and the shift of some expenses to the second half of the year.

Sales outlook as of 2Q 2022 (Vs. 2Q 2021)			Evaluation as of 2Q 2022 (Vs. initial plan)	
			Net sales	Operating profit
Japan	Mid-single-digit increase	Forecast YoY growth of about the same as initially planned due to strong high-prestige sales growth and the outlook for a recovery in the prestige category starting in the second half.	▲	▲
China (online/offline)	+10%	Demand for cosmetics is recovering, but the zero-COVID policy is preventing a return to normal economic activity and competition is likely to remain intense.	▲	▲
TR (including South Korea)	+10%	Forecast higher travel retail sales because of the ongoing recovery in South Korea and the outlook for a recovery in sales in Hainan Island.	▲	▲
North America (Tarte)	High-single-digit increase	Consumer spending is currently strong but may weaken because of inflation and FRB interest rate hikes.	○	▲

# Consolidated Income Statement Highlights

- Although the cost of sales ratio increased, operating profit was higher due to cost controls and the shift of selling expenses to the second half, and ordinary profit was higher due to a big increase in foreign exchange gains. Profit attributable to owners of parent increased YoY.

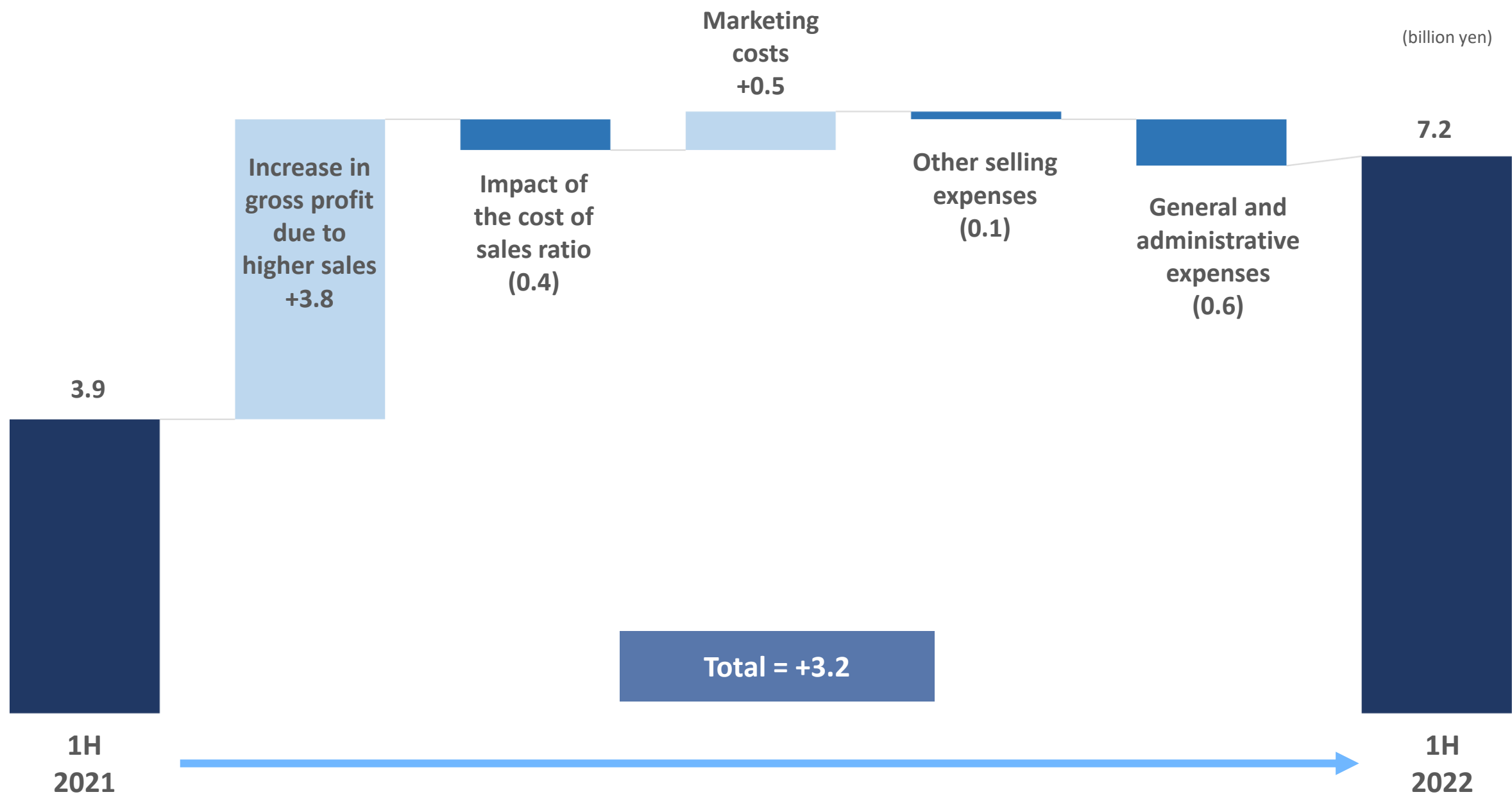
1H							
	2021		2022		Change (amount)	Change (ratio)	
	(billion yen)	Amount	Ratio to net sales	Amount			Ratio to net sales
Net sales		<b>125.0</b>	<b>100.0%</b>	<b>130.6</b>	<b>100.0%</b>	<b>+5.5</b>	<b>+4.4%</b>
Cost of sales		<b>36.8</b>	<b>29.5%</b>	<b>38.9</b>	<b>29.8%</b>	<b>+2.0</b>	<b>+5.5%</b>
Gross profit		<b>88.2</b>	<b>70.5%</b>	<b>91.6</b>	<b>70.2%</b>	<b>+3.4</b>	<b>+4.0%</b>
SG&A expenses		<b>84.2</b>	<b>67.3%</b>	<b>84.4</b>	<b>64.7%</b>	<b>+0.2</b>	<b>+0.3%</b>
Operating profit		<b>3.9</b>	<b>3.2%</b>	<b>7.2</b>	<b>5.5%</b>	<b>+3.2</b>	<b>+81.5%</b>
Ordinary profit		<b>7.1</b>	<b>5.7%</b>	<b>15.1</b>	<b>11.6%</b>	<b>+8.0</b>	<b>+112.7%</b>
Profit before income taxes		<b>7.0</b>	<b>5.6%</b>	<b>14.9</b>	<b>11.4%</b>	<b>+7.8</b>	<b>+111.3%</b>
Profit attributable to owners of parent		<b>3.0</b>	<b>2.4%</b>	<b>8.8</b>	<b>6.8%</b>	<b>+5.8</b>	<b>+193.3%</b>
Net income per share		-		<b>155.72 yen</b>		-	

# Cost of Sales and SG&A Expenses

- Higher cost of sales ratio, but SG&A expenses were about the same as overall cost controls offset an increase in personnel expenses.

1H							
		2021		2022		YoY Change	
		Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	Ratio
(billion yen)							
Cost of sales		36.8	29.5%	38.9	29.8%	+2.0	+5.5%
SG&A expenses		84.2	67.3%	84.4	64.7%	+0.2	+0.3%
Selling expenses	Sales promotion	20.8	16.7%	20.7	15.9%	(0.1)	(0.7)%
	Advertising	10.4	8.4%	10.0	7.7%	(0.3)	(3.5)%
	Freightage and packing	7.7	6.2%	7.8	6.0%	+0.1	+1.4%
Subtotal		39.0	31.2%	38.6	29.6%	(0.4)	(1.0)%
General and administrative expenses	Personnel	27.0	21.6%	28.2	21.6%	+1.2	+4.4%
	R&D	2.9	2.4%	2.8	2.2%	(0.1)	(6.1)%
	Depreciation	2.0	1.7%	2.2	1.7%	+0.1	+8.9%
	Others	13.0	10.4%	12.5	9.6%	(0.5)	(4.2)%
Subtotal		45.1	36.1%	45.8	35.1%	+0.6	+1.5%

# YoY Changes in Operating Profit



- In the cosmetics segment, sales and operating profit increased YoY. DECORTÉ sales were strong in Japan but slow in China. ALBION, Tarte, JILL STUART and Carté HD all contributed to sales growth. Challenges continued for the SEKKISEI brand.
- In the cosmetaries segment, sales began recovering in April, chiefly for the major products of KOSÉ Cosmeport Corp. However, the recovery was not enough to offset the first quarter sales decline and operating loss.

## Net sales

1H						
Operating segment (billion yen)	2021	2022	YoY change (amount)	YoY change (ratio)	% comp.	
	Amount	Amount			2021	2022
Cosmetics	99.3	105.5	+6.2	+6.3%	79.4%	80.8%
Cosmetaries	24.9	24.1	(0.7)	(3.0)%	19.9%	18.5%
Other	0.8	0.8	+0.0	+5.6%	0.7%	0.8%
<b>Total</b>	<b>125.0</b>	<b>130.6</b>	<b>+5.5</b>	<b>+4.4%</b>	<b>100.0%</b>	<b>100.0%</b>

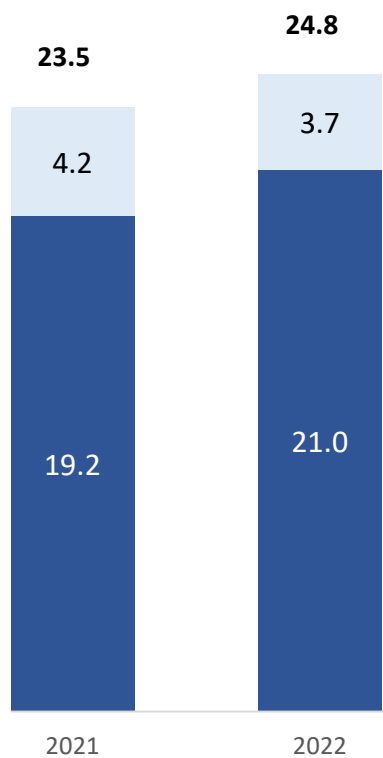
## Operating profit

1H						
Operating segment (billion yen)	2021	2022	YoY change (amount)	YoY change (ratio)	Operating margin	
	Amount	Amount			2021	2022
Cosmetics	6.5	9.9	+3.3	+51.1%	6.6%	9.4%
Cosmetaries	(0.2)	(0.5)	(0.3)	-	(0.9)%	(2.3)%
Other	0.3	0.4	+0.1	+48.9%	36.1%	42.6%
Adjustment	(2.6)	(2.6)	+0.0	-	-	-
<b>Total</b>	<b>3.9</b>	<b>7.2</b>	<b>+3.2</b>	<b>+81.5%</b>	<b>3.2%</b>	<b>5.5%</b>



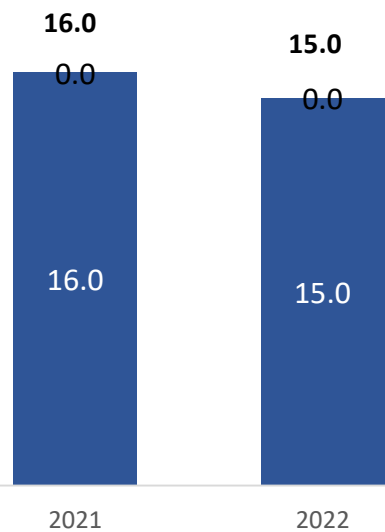
## ALBION CO., LTD.

\* The Accounting Standard for Revenue Recognition is applied.



## KOSÉ Cosmeport Corp.

\* The Accounting Standard for Revenue Recognition is applied.



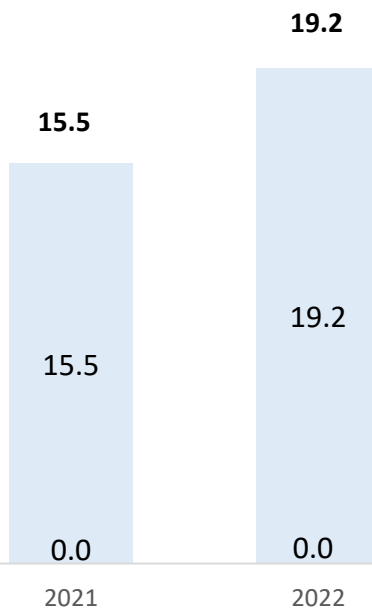
## Tarte, Inc.

\* The Accounting Standard for Revenue Recognition is applied.

(billion yen)

■ Overseas (net sales)  
■ Japan (net sales)

\* Figures are rounded down to the first decimal place.



## DECORTÉ

\* The Accounting Standard for Revenue Recognition is not applied.

(billion yen)	2021	2022
<b>Net sales</b>	<b>41.8</b>	<b>42.2</b>
Japan	9.6	12.8
Overseas	32.2	29.4

## SEKKISEI

\* The Accounting Standard for Revenue Recognition is not applied.

(billion yen)	2021	2022
<b>Net sales</b>	<b>6.1</b>	<b>5.2</b>
Japan	4.2	3.4
Overseas	1.9	1.8

# Net Sales by Region

- In Japan, sales increased as sales began recovering slowly in April due to the easing of restrictions for pandemic safety.
- In Asia, sales recovered in South Korea, which started easing pandemic restrictions for foreign tourists, but total sales in this region were down because of the severe impact of lockdowns in China.
- In North America and other regions, sales increased because of strong consumer spending.

1H						
(billion yen)	2021		2022		YoY change (amount)	YoY change (ratio)
	Amount	% comp.	Amount	% comp.		
Japan	71.7	57.3%	75.7	58.0%	+4.0	+5.6%
Asia	37.7	30.2%	36.0	27.6%	(1.6)	(4.3)%
North America	14.0	11.2%	16.5	12.6%	+2.5	+17.9%
Other	1.6	1.3%	2.2	1.7%	+0.5	+35.9%
<b>Total</b>	<b>125.0</b>	<b>100.0%</b>	<b>130.6</b>	<b>100.0%</b>	<b>+5.5</b>	<b>+4.4%</b>
Overseas sales	53.3	42.7%	54.8	42.0%	+1.4	+2.8%

# Net Sales by Region: Japan

➤ Cosmetaries sales increased significantly in the drug store and other mass-market channels but sales of prestige brands were slow. Sales of high-prestige brands continued to be strong at specialty cosmetics stores and department stores.

(billion yen)	2021	2022	YoY change (amount)	YoY change (ratio)
1H	71.7	75.7	+4.0	+5.6%
1Q	37.9	36.5	(1.3)	(3.6)%
2Q	33.7	39.2	+5.4	+16.0%

## Market Trends

- Japan
  - Inflation fueled by the yen's depreciation and high cost of crude oil
  - The number of COVID-19 cases was declining nationwide but started climbing rapidly in late June

## KOSÉ

- Overall
  - Slow sales of mid-price products, but sales at specialty cosmetics store and department store channels were strong
- High prestige
  - DECORTÉ ZEN WEAR FLUID successfully attracted new customers for makeup products
  - The new version of SKIN CONDITIONER ESSENTIAL generated strong sales
- Prestige
  - Although challenges continue at the SEKKISEI brand, sales recovered somewhat for the ONE BY KOSÉ brand due to the launch of DOUBLE BLACK WASHER
- Cosmetaries
  - COSMEPORT sales growth was backed by higher sales of sheet masks and cleansing and sunscreen products. CLEAR TURN maintained its leading position in the sheet mask market in Japan

## Strategies for 2H 2022

- Overall
  - DECORTÉ online counseling adds the Personal Beauty Mirror to allow customers to see how they look with different makeup products on the internet
  - ALBION launches the FLARUNÉ series of skin care products with the goal of increasing the number of customers in younger age segments
  - Promotional activities for SEKKISEI with the goal of revitalizing this brand
  - Promotional activities throughout the KOSÉ Group in the consistently growing market for sensitive skin care products

# Net Sales by Region: Asia

- Sales in China declined because of restrictions on economic activity, incl. lockdowns in Shanghai, due to zero-COVID policy.
- Big recovery in travel retail sales in South Korea since April following the easing of pandemic restrictions for foreign tourists.

(billion yen)	2021	2022	YoY change (amount)	YoY change (ratio)
1H	37.7	36.0	(1.6)	(4.3)%
1Q	16.2	14.0	(2.2)	(13.5)%
2Q	21.4	22.0	+0.5	+2.7%

## Market Trends

China (mainland)	<ul style="list-style-type: none"> <li>■ Lockdowns mainly in Shanghai and other cities</li> <li>■ The zero-COVID policy that began in October 2021 is continuing</li> </ul>
China (duty-free)	<ul style="list-style-type: none"> <li>■ Big drop in sales in March as nationwide lockdowns in China restricted travel</li> </ul>
South Korea (duty-free)	<ul style="list-style-type: none"> <li>■ Recovery continues as pandemic restrictions ease</li> </ul>

## KOSÉ

China (Mainland)	<ul style="list-style-type: none"> <li>■ In the EC channel, DECORTÉ sales during China's 618 (June 1-18) shopping festival were down YoY</li> <li>■ Increasing online/offline customer linkage by using the group chat function of WeChat</li> </ul>
China (duty-free)	<ul style="list-style-type: none"> <li>■ In mainland China, sales were down due to travel restrictions as the number of COVID-19 cases increases</li> </ul>
South Korea (duty-free)	<ul style="list-style-type: none"> <li>■ Consumer spending started recovering in April, resulting in increases in purchases and shipments of products</li> </ul>

## Strategies for 2H 2022

China	<ul style="list-style-type: none"> <li>■ SEKKISEI held a booth at the China International Consumer Products Expo on Hainan Island.</li> <li>■ In live commerce, effectively utilize key opinion leaders (KOL) and KOSÉ beauty consultants</li> <li>■ Sales of LIPOSOME ADVANCED REPAIR CREAM will start on September 1 outside Japan ahead of the launch in Japan</li> </ul>
South Korea	<ul style="list-style-type: none"> <li>■ Further upgrade sales activities by building stronger relationships with duty-free stores</li> </ul>

# Net Sales by Region: North America, Europe, Others

- Tarte maintained its high share of the prestige makeup market by reinforcing concealer, mascara and other key categories and increasing sales in the lip makeup category, mainly by launching new products. In addition, Tarte continues to open more stores.

(billion yen)	2021	2022	YoY change (amount)	YoY change (ratio)
1H	15.6	18.7	+3.0	+19.7%
1Q	7.0	8.3	+1.2	+18.1%
2Q	8.5	10.3	+1.8	+21.1%

## Market Trends

USA	<ul style="list-style-type: none"> <li>■ Inflation that includes the rising cost of energy and raw materials caused by the Ukraine crisis is increasing concerns about the possibility of a recession</li> </ul>
Europe	<ul style="list-style-type: none"> <li>■ The Ukraine crisis started just as the economy was starting to recover as the pandemic passed the peak. Serious impact of the rising cost of energy and raw materials.</li> </ul>

## Tarte

- |         |  |
|---------|--|
| Overall | <ul style="list-style-type: none"> <li>■ Sales at Tarte are strong and its market share remains high as the U.S. makeup market recovers</li> <li>■ Sales increased in the key concealer category and for new products in the lip makeup category.</li> </ul> |
|---------|--|

## Strategies for 2H 2022

- |                   |  |
|-------------------|--|
| USA (Tarte)       | <ul style="list-style-type: none"> <li>■ As the holiday season approaches, planning on higher sales than in 2021 by utilizing distribution channels that have expanded</li> <li>■ Increasing the use of TikTok and other digital communications</li> <li>■ As in the first half, Tarte will open more shops at Sephora@Kohl's and Ulta@Target</li> </ul> |
| Europe and others | <ul style="list-style-type: none"> <li>■ Tarte plans to open more shops at Sephora UK stores and in EU countries.</li> </ul>   |

# E-commerce/Travel Retail Sales

- E-commerce sales were strong for DECORTÉ in Japan but sales were slow during China's 618 shopping festival.
- Travel retail sales returned to growth at South Korea duty-free stores, a sector that had been weak, but lockdowns severely impacted travel retail sales in China.

EC (billion yen)	Japan			China			Other Asian countries			North America, others			Total		YoY change
	2021	2022	YoY change	2021	2022	YoY change	2021	2022	YoY change	2021	2022	YoY change	2021	2022	
1H	4.1	5.1	+23.8%	8.9	8.4	(5.5)%	0.1	0.1	+17.0%	3.8	4.3	+13.2%	17.1	18.2	+6.2%
1Q	2.0	2.8	+36.7%	3.0	3.2	+4.4%	0.0	0.1	+42.5%	1.8	1.8	+2.1%	7.0	8.0	+13.8%
2Q	2.0	2.3	+11.0%	5.8	5.2	(10.7)%	0.0	0.0	(9.4)%	2.0	2.5	+22.9%	10.1	10.2	+1.0%

TR (billion yen)	Japan			China			South Korea			North America, others			Total		YoY change
	2021	2022	YoY change	2021	2022	YoY change	2021	2022	YoY change	2021	2022	YoY change	2021	2022	
1H	0.1	0.3	+81.3%	14.0	12.4	(11.8)%	9.3	9.1	(1.9)%	0.3	0.1	(48.5)%	23.9	22.0	(7.6)%
1Q	0.0	0.1	+127.8%	5.8	6.5	+12.9%	4.6	2.3	(49.8)%	0.1	0.0	(77.8)%	10.7	9.0	(15.2)%
2Q	0.1	0.1	+58.5%	8.2	5.8	(29.3)%	4.7	6.8	+45.0%	0.1	0.1	+4.6%	13.2	13.0	(1.5)%

Offline (billion yen)	China		
	2021	2022	YoY change
1H	4.4	3.7	(14.8)%
1Q	1.7	1.3	(22.4)%
2Q	2.6	2.3	(9.8)%

\* The Accounting Standard for Revenue Recognition is not used.

# Balance Sheet and Cash Flow Highlights

- Total assets amounted to ¥334.7 billion and equity ratio above 70%  
Inventories increased because of concerns about the rising cost of raw materials

BS (billion yen)	As of December 31, 2021		As of June 30, 2022		Change
	Amount	Share	Amount	Share	Amount
Current assets	217.3	67.9%	231.1	69.1%	+13.8
Cash and deposits	105.2	32.9%	109.1	32.6%	+3.8
Accounts receivable	44.2	13.8%	43.3	12.9%	(0.8)
Inventories	63.7	19.9%	74.0	22.1%	+10.2
Non-current assets	102.6	32.1%	103.6	30.9%	+0.9
Property, plant and equipment	59.5	18.6%	59.9	17.9%	+0.4
Intangible assets	14.2	4.5%	14.7	4.4%	+0.5
Total assets	320.0	100.0%	334.7	100.0%	+14.7

Current liabilities	59.1	18.5%	58.8	17.6%	(0.2)
Accounts payable	23.7	7.4%	24.7	7.4%	+0.9
Short-term borrowings	0.6	0.2%	3.3	1.0%	+2.7
Non-current liabilities	6.6	2.1%	8.7	2.6%	+2.1
Total liabilities	65.7	20.5%	67.6	20.2%	+1.8
Total net assets	254.2	79.5%	267.1	79.8%	+12.8
Shareholders' equity*	238.3	74.5%	250.9	75.0%	+12.6
Non-controlling interests	15.9	5.0%	16.1	4.8%	+0.2
Total liabilities and net assets	320.0	100.0%	334.7	100.0%	+14.7

\* Shareholders' equity = Net assets – Share acquisition rights – Non-controlling interests

- Overall cash flow remained stable despite a decrease of ¥0.4 billion in cash

CF (billion yen)	1H 2021	1H 2022
Profit before income taxes	+7.0	+14.9
Depreciation	+5.4	+4.6
Decrease (increase) in trade receivables	+9.8	+2.1
Decrease (increase) in inventories	(1.2)	(6.3)
Increase (decrease) in trade payables	(4.6)	+0.6
Others	(3.2)	(13.6)
<b>Cash flows from operating activities</b>	<b>+13.5</b>	<b>+2.3</b>
Capital expenditures	(2.9)	(2.3)
(Increase) decrease in time deposits	(9.9)	(3.4)
<b>Cash flows from investing activities</b>	<b>(13.7)</b>	<b>(6.7)</b>
Funds procured from external sources and repayments	(3.5)	+2.5
Cash dividends paid	(3.6)	(3.6)
<b>Cash flows from financing activities</b>	<b>(7.2)</b>	<b>(1.3)</b>
Effect of exchange rate change on cash and cash equivalents	+1.8	+5.3
Change in cash and cash equivalents	(5.6)	(0.4)
Cash and cash equivalents at beginning of period	71.4	81.8
Cash and cash equivalents at end of period	65.8	81.4

- There is uncertainty about if the Japanese economy will continue to recover. Aime for a sales recovery in the prestige category while maintaining strong high prestige and cosmetaries sales.
- In China, sales are unlikely to start recovering soon because of the country’s zero-COVID policy. Duty-free sales in South Korea and Hainan Island are expected to recover after restrictions on various activities are reduced or terminated.
- Although there are concerns about the possibility of a recession in North America and Europe, the goal is sales growth and an improvement in profitability by increasing market share and strengthening sales activities for core products.

## Regional outlook

Japan	<ul style="list-style-type: none"> <li>■ In the high prestige category, DECORTÉ plans to increase sales while attracting more young customers, mainly by using LIPOSOME ADVANCED REPAIR SERUM and new products. ALBION expects steady sales growth in the second half backed by the FLARUNÉ skin care series, which will be launched in August.</li> <li>■ In the prestige category, promotional activities by KOSÉ Group companies in the sensitive skin care market, in order to capture a larger market share, mainly of SEKKISEI products.</li> <li>■ In the cosmetaries category, updated versions are planned for the products of STEPHEN KNOLL NEW YORK and the BIOLISS BOTANICAL line, the core product of BIOLISS, for more growth in the large hair care category. Goals are to target a broader range of customer segments and increase points of contact with new customers. Plan on a second half recovery to offset the first half sales downturn and loss.</li> <li>■ At sales companies in Japan, the Flagship Shop Project 2024 will use activities that match the characteristics of individual specialty cosmetics stores to strengthen the operations of these stores and deepen ties with these stores with the goal of creating cosmetics stores that rank first in sales in their respective areas.</li> </ul>
Asia	<ul style="list-style-type: none"> <li>■ In China, strict restrictions based on the zero-COVID policy are expected to continue. A sales and earnings recovery is not expected to happen soon because of a downturn in prominent key opinion leader (KOL) live streaming in the EC sector and other reasons.</li> <li>■ Planning on a recovery in sales in travel retail (China, South Korea) as the number of tourists increases as pandemic restrictions are reduced or eliminated.</li> </ul>
North America/ Europe	<ul style="list-style-type: none"> <li>■ Sales are increasing at Tarte as its market share climbs and sales activities for core products are strengthened. Activities continue for improving profitability by lowering the cost of sales ratio.</li> </ul>



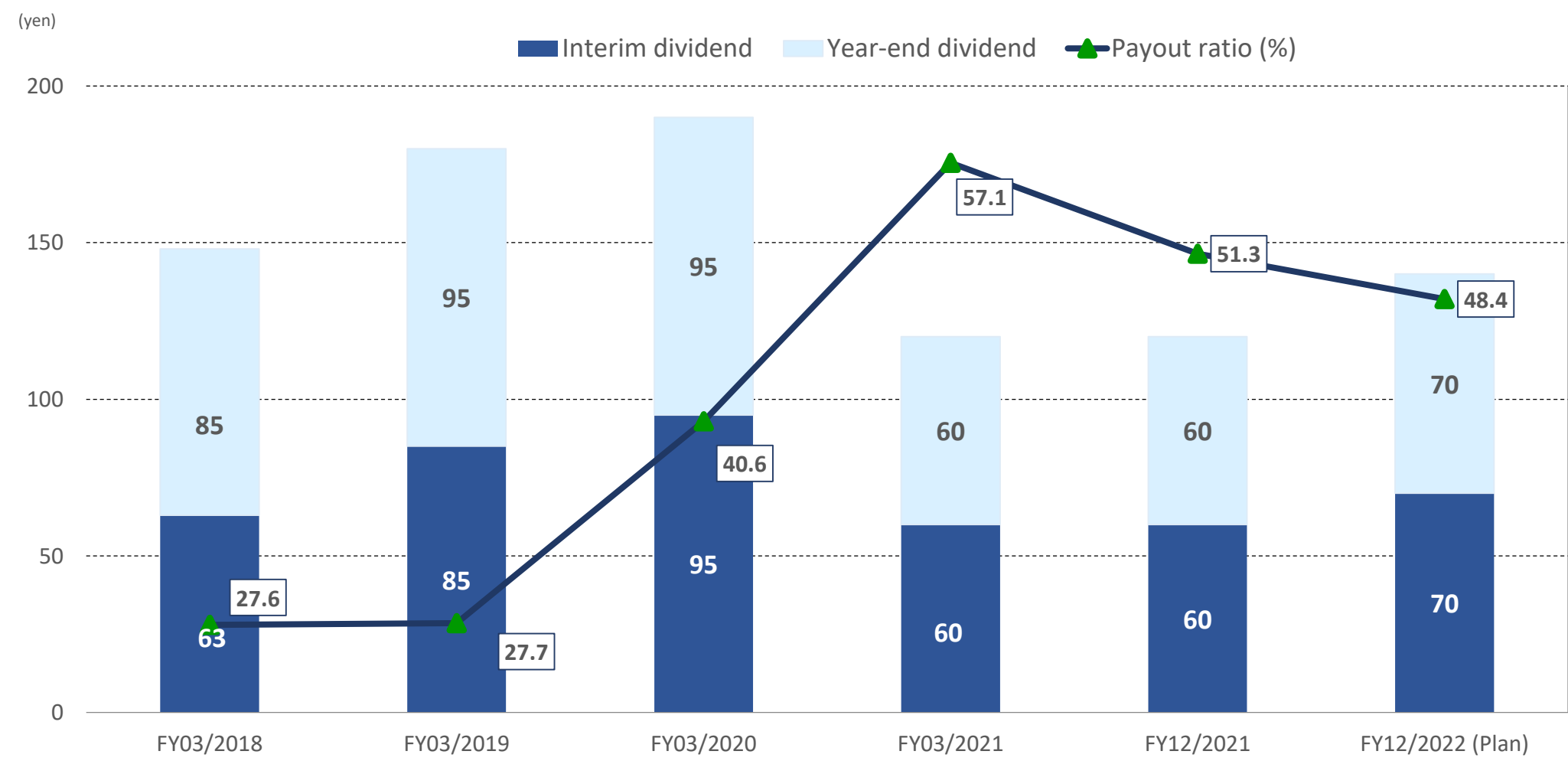
# 2022 Outlook and Revised Plan

- First half sales were in line with the initial forecast. The 2022 operating profit forecast has been lowered because of declining profitability in China caused by intense competition and the rising cost of sales ratio caused by increasing prices of raw materials. No revisions to the 2022 forecasts for ordinary profit and profit attributable to owners of parent because the yen's depreciation is increasing foreign exchange gains.

(billion yen)	FY2021 results (Jan. - Dec. 2021)		2022 initial plan		2022 revised plan	
	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	Ratio to net sales
Net sales	268.9	100.0%	293.0	100.0%	293.0	100.0%
Cosmetics	217.7	80.9%	238.5	81.4%	238.5	81.4%
Cosmetaries	49.1	18.3%	52.6	17.9%	52.6	17.9%
Other	2.0	0.8%	1.9	0.7%	1.9	0.7%
Operating profit	15.6	5.8%	22.0	7.5%	20.0	6.8%
Ordinary profit	22.0	8.2%	22.6	7.7%	22.6	7.7%
Profit attributable to owners of parent	11.1	4.1%	16.5	5.6%	16.5	5.6%
Net income per share	-		289.22 yen		289.22 yen	
ROA	-			7.0%		7.0%
ROE	-			6.4%		6.4%
Capital expenditures	-			18.9		18.9
Depreciation	-			10.3		10.3

(Vs. FY2021 results) 2022 revised plan		(Vs. 2022 initial plan) 2022 revised plan	
Change (amount)	Change (ratio)	Change (amount)	Change (ratio)
+24.0	+8.9%	-	-
+20.7	+9.5%	-	-
+3.4	+6.9%	-	-
(0.1)	(8.0)%	-	-
+4.3	+27.6%	(2.0)	(9.1)%
+0.5	+2.5%	-	-
+5.3	+48.2%	-	-

➤ 2022 annual dividend: The plan is a ¥140 dividend (includes ¥70 interim dividend)  
 No change from the initial plan



## **1. 1H 2022 Results of Operations**

**Shinichi Mochizuki, Director & CFO**

## **2. Progress Report of Basic Strategy in 2022 and Upcoming Initiatives**

**Kazutoshi Kobayashi, President & CEO**

## **3. Supplementary Information**

## Key initiatives

- (1) Target China and travel retail for growth**
- (2) Increase brand value (focus on personal customer experiences and distinctive forms of value)**
- (3) Post-COVID Structural Reforms and Growth Strategy**
- (4) Activities based on the sustainability strategy**

(1) Strategic investments in China/travel retail, the markets with the most growth potential, to achieve global and borderless growth

- ✓ Strategic investments to further increase activities for the growth of flagship global brands

(2) More customer experiences to successfully execute the growth strategy

- ✓ Use digital/real methods for more and better personal customer experiences
- ✓ New forms of customer interaction value involving online and many other types of counseling services
- ✓ More and better digital communications

(3) Enlarge targeted customer segments and review sales infrastructure in Japan to support growth strategies and the provision of value

- ✓ Activities for more new customers
- ✓ Start new initiatives in Japan
- ✓ Use a more powerful sales infrastructure in Japan to improve profitability in Japan

(4) Activities aimed at helping solve issues in order to help achieve a sustainable society

- ✓ Develop products that are environmentally responsible and incorporate features and properties for adaptability

Key initiatives	First Half Assessment	Activities in the Second Half
(1) Target China and travel retail for growth	<ul style="list-style-type: none"> <li>● Lockdown in China has pushed back the DECORTÉ store opening plan.</li> <li>● Sales during China's 618 (June 1 to 18) shopping festival were generally as planned, but below the strong sales one year earlier.</li> <li>● Open the store including a sales counter and VIP room on Hainan Island for high-net-worth customers to raise awareness of KOSÉ's high-end products.</li> </ul>	<ul style="list-style-type: none"> <li>● Raise awareness of high-end products.</li> <li>● Raise awareness of the SEKKISEI brand.</li> <li>● Add new platforms as EC channels in China continue to diversify.</li> <li>● Expand travel retail operations in regions other than China.</li> </ul>
(2) Increase brand value (focus on personal customer experiences and distinctive forms of value)	<ul style="list-style-type: none"> <li>● Use online counseling to increase the number of young customers and attract new customers.</li> </ul>	<ul style="list-style-type: none"> <li>● Enhancing digital communication.</li> <li>● Use digital technologies to give customers a more personal experience.</li> <li>● Make makeup products more appealing and competitive.</li> </ul>
(3) Post-COVID structural reforms and growth strategy	<ul style="list-style-type: none"> <li>● Promote selling new and existing products together.</li> <li>● Strengthen cleansing, hair care, sunscreen and other major product categories.</li> </ul>	<ul style="list-style-type: none"> <li>● Increase the number of young customers who use high-end products.</li> <li>● Rebuild and reinvigorate the SEKKISEI brand.</li> <li>● Use all KOSÉ Group resources to target the growing market for products for sensitive skin.</li> </ul>
(4) Activities based on the sustainability strategy	<ul style="list-style-type: none"> <li>● Started the ALBION RECYCLE PROJECT.</li> <li>● Confirmed that KOSÉ sunscreen products do not affect coral growth.</li> <li>● Full-scale launch of the COSME BANK PROJECT.</li> </ul>	<ul style="list-style-type: none"> <li>● Open a beauty studio at KidZania Tokyo amusement park to help learn the importance of the diversity for the next generation.</li> <li>● Provide products and services with even more added value from the standpoint of wellbeing.</li> <li>● Update the target for reducing CO2 emissions.</li> </ul>

# (1) Strategic Goals in China: Raise awareness of high-end products

- ◆ Raise awareness of DECORTÉ high-end products and aim for a higher profile in the large market for beauty cream products



KOSÉ plans to open a flagship store in October 2022 on Hainan Island that will have a floor area of 110m<sup>2</sup>. The store will sell a broad selection of high-end DECORTÉ products, including LIPOSOME and AQ line products. The store will also be the first duty-free store to include a treatment room.



Demand for skin care cream is strong in China as basic skin care because of the country's dry climate in many places. LIPOSOME ADVANCED REPAIR CREAM will be launched as a major DECORTÉ product in addition to beauty serum products. Sales are to begin on September 1, 2022 outside Japan and September 16 in Japan.

(The upper right photo and two lower photos were taken at the press conference in Japan in July to announce the launch of LIPOSOME Advanced Repair Cream.)

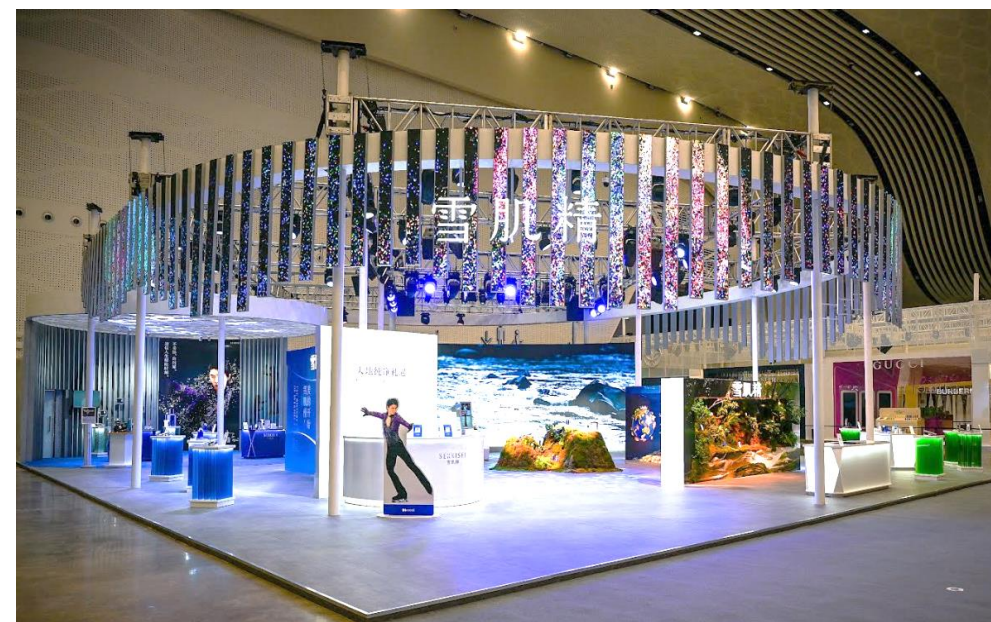


# (1) Strategic Goals in China: Add new EC platforms and raise awareness of the SEKKISEI brand

- ◆ Expand distribution channels to EC platforms other than Tmall as EC channels in China become more diverse.
- ◆ Make more customers aware of the SEKKISEI brand.



SEKKISEI opened a flagship store in March 2022 on Douyin (the Chinese version of TikTok). In April, Top KOL held a livestream commerce event for SEKKISEI products. Due to activities like these, SEKKISEI aims for promoting sales on EC platforms other than Tmall.



SEKKISEI participated in the Second China International Consumer Product Expo on Hainan Island, which was held from July 26 to 30, 2022. In the fall of 2022, SEKKISEI plans to open SEKKISEI Global Counter, which sells all of its products, for the first time at a duty-free store on Hainan Island.

# (1) Travel Retail Strategic Goals: Raise awareness of high-end products

- ◆ Expand travel retail to more regions in anticipation of demand created as people in China resume traveling as the pandemic settles down.
- ◆ Start sales of ALBION products on Hainan Island.



In May 2022, the LOTTE duty-free store in Sydney, Australia, started selling DECORTÉ products. Australia is a popular destination for Chinese tourists. Demand for cosmetics is expected to increase in the near future. As the first DECORTÉ store in Oceania, the store is expected to raise the profile of this brand throughout the region.



In July 2022, ALBION opened its first duty-free store by using a pop-up space on the first floor of the CDF Sanya duty-free store on Hainan Island. This new store is expected to raise recognition of the ALBION brand.



## (2) Increase Brand Value: Enhancing digital communication

### ◆ Tarte's TikTok Trip had a beneficent influence



Tarte hosted the first ever brand trip for TikTok influencers with CEO & Founder Maureen Kelly. Sixteen top beauty influencers – with over 35 million followers combined – experienced the Tarte products.

The top beauty influencers posted about Tarte organically, and the new launches “went viral” on TikTok. In particular, Maracuja Juicy Lip Plump beat the sales projections and sold out in the first week.

## (2) Increase Brand Value: Focus on personal customer experiences

- ◆ A more advanced version of the Web-BC System, KOSÉ's exclusive counseling platform  
This all-inclusive system extends from counseling reservations and video conversation to purchasing products.



The Personal Beauty Mirror was added in July to allow customers to try different types of makeup on the screen while receiving online counseling.

Even during a video conversation, customers can try different virtual makeup, such as point makeup colors and textures.

Video conversation screen



End of call screen



Cart screen



In September, the "Direct Cart-in" function will be added. This will allow customers to select a product explained by a beauty consultant during a video interaction by simply tapping the screen. Purchases are processed by using the official DECORTÉ Online Boutique.

## (2) Increase Brand Value: Make makeup products more appealing and competitive

◆ Sales of makeup products are recovering. KOSÉ makeup products received many Best Cosmetics Awards in the first half of 2022.



美容賢者が選ぶ  
2022年上半期ベストコスメ  
ベースメイク部門下地編  
第1位





#### ◆ Activities to increase sales of DECORTÉ and ALBION products to customers in younger age segments



In August, the AQ line of DECORTÉ launched AURA REFLECTOR, a multi-color facial powder. By adding a new product that targets the needs of consumers, this new product is expected to attract new customers and contribute to sales of existing products.



In August, ALBION launched the FLARUNÉ series of skin care products. These new products are intended to attract new customers, such as by enabling marketing activities targeting people who do not currently use skin care products.

◆ For SEKKISEI, the core mid-price-range brand, the brand's first joint marketing campaign for several product series



A marketing campaign has started that covers SEKKISEI Classic, SEKKISEI MIYAVI and SEKKISEI Clear Wellness. Goals include raising awareness of SEKKISEI Clear Wellness and telling people about the features and differences for each series of beauty lotion.



A marketing campaign started on July 1, 2022 that featured two global muses: figure skater Yuzuru Hanyu and actress Yui Aragaki. Marketing activities promote the fact that these are genderless products and help target an even broader spectrum of potential users.

◆ Marketing campaigns spanning all KOSÉ Group products that target the consistently growing market for sensitive skin care products

自然の力で、うるおいも透明感も。  
**SEKKISEI**  
雪肌精



**Carté**



medicated skin cream  
**CERAMIAID**  
セラミエイド



◆ Support for learning the importance of diversity for the next generation

KOSÉ will open a Beauty Studio on October 5, 2022 at KidZania Tokyo where children can experience beauty from many perspectives.



	Women*	Other than women
Newborn	Expand	
Infant		
Toddler		
Child		
Adolescent	Previous targets	Expand
Prime age adult		
Middle aged		
Elder		
	Expand	



BEAUTY STUDIO

**Occupation: Experience**  
**Hair & Makeup Artists:**  
 Experience the work of hair style or makeup artists  
**Perfumers:**  
 Experience the work of Room Fragrance Perfumers

The Beauty Studio will help KOSÉ establish relationships with prospective customers at an early age and use KOSÉ’s “wisdom of beauty” to give children a better understanding of the many aspects of beauty.



## (4) Activities Based on the Sustainability Strategy: Activities for people and the Earth

- ◆ KOSÉ received the Nadeshiko designation for the empowerment of women for the first time in 2022.
- ◆ The benefits to the skin and heart of KOSÉ's OMOIYARI\* Method, a unique KOSÉ skin care technique, have been confirmed.
- ◆ KOSÉ decided to aim for Carbon Neutral by achieving zero CO2 emissions by 2040.

\* A uniquely Japanese word that expresses an attitude of giving full consideration to the other person's situation and thought.



(Left) In 2022, KOSÉ received the Nadeshiko designation for the first time due to its strong commitment to programs for empowering women.

(Right) Skin, brain wave and oxytocin measurements have confirmed that the Kind Heart Method, a unique skin care technique developed by KOSÉ, has benefits for the skin and can bring about positive changes in one's spirit. From the standpoint of wellbeing with regard to the link between beauty and health, KOSÉ plans to expand in business domains irrespective of age and gender and to provide products and services with even more added value.

### New goal

Carbon Neutral (2040 target: Scope 1/2)

### Revision

Raised the Scope 1/2 CO2 emission reduction target from 35% to 55%\*

### No revision

The Scope 3 CO2 emission reduction target is 30%\*

\*Reductions are based on total emissions in 2018 for Scope 1, 2 and 3 and the target year is 2030.

Scope 1 covers direct emissions from owned sources

(In-house fuel use and industrial processes)

Scope 2 covers indirect emissions from the generation of purchased electricity, steam and heating consumed by other companies

Scope 3 covers indirect emissions other than the Scope 1/2

(Other companies' emissions related to business activities of the reporting company)

◆ KOSÉ Corporate website: Low Carbon Transition Plan, Sustainability  
<https://www.kose.co.jp/company/ja/sustainability/environment/actionplan/>  
 (Japanese only)

◆ See Supplementary Information on page 36.



**1. 1H 2022 Results of Operations**

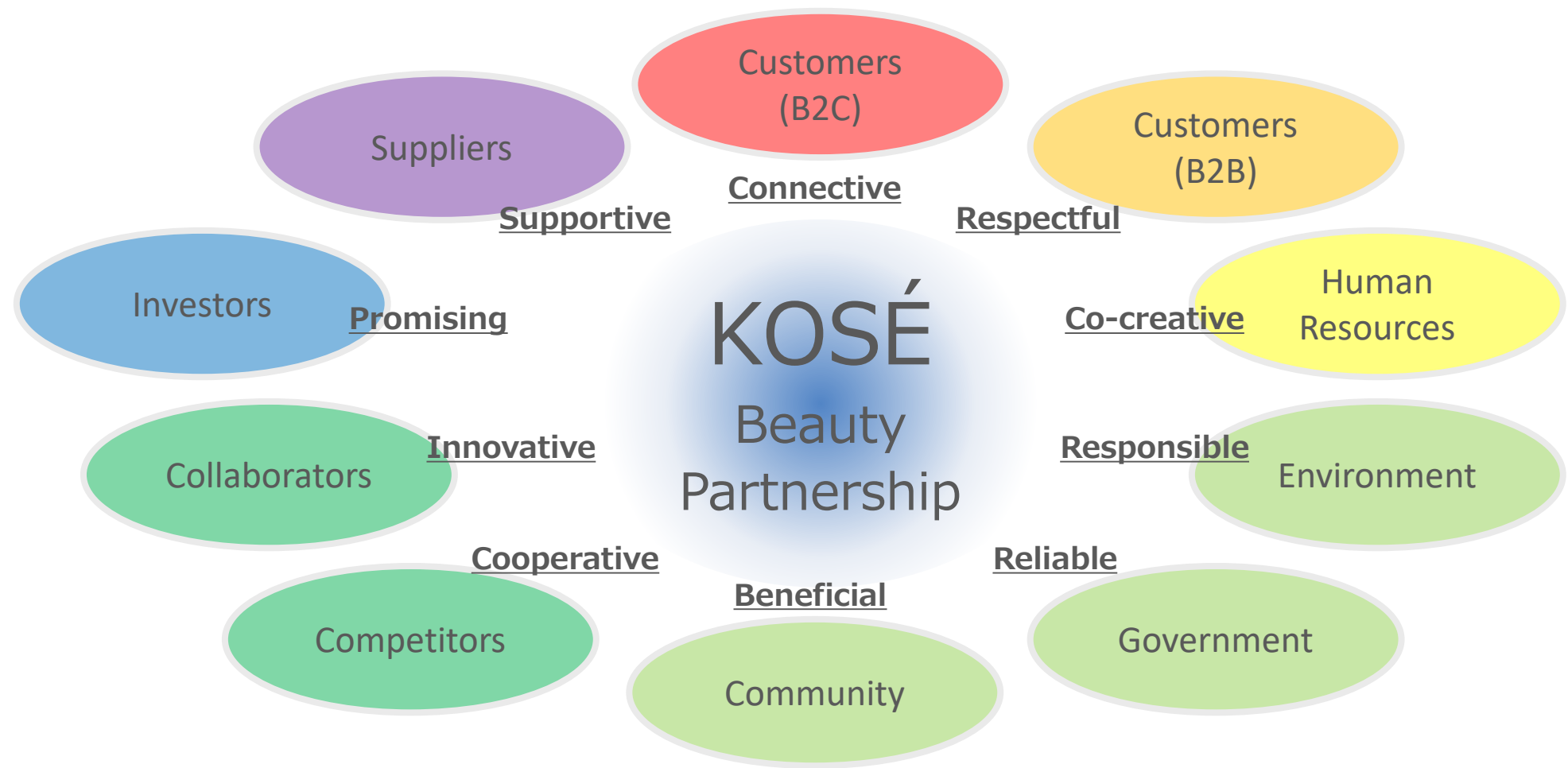
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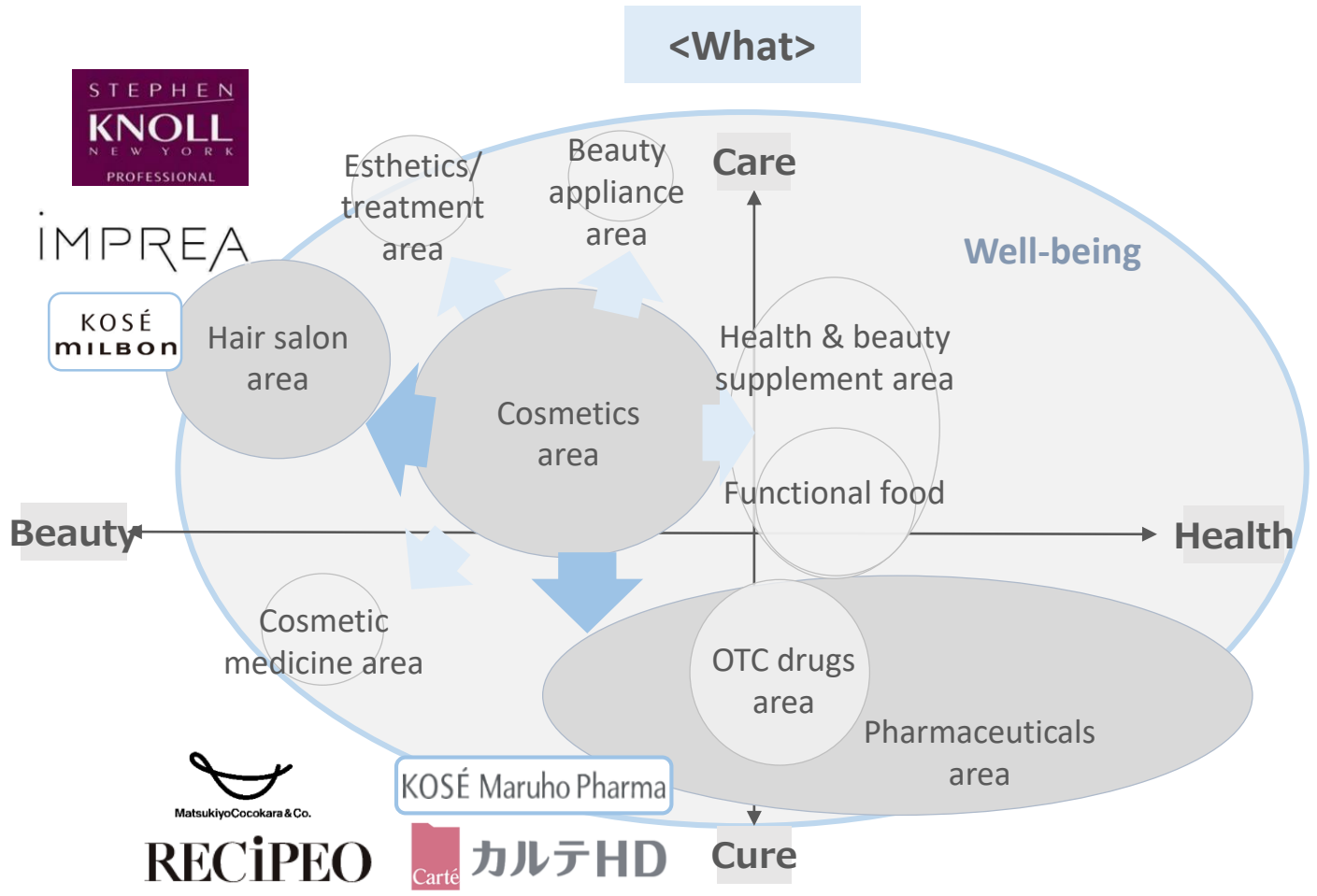
As a beauty partnership company, we will create a cosmetics culture unique to Japan and spread it across the world by establishing mutually enhancing relationships with all stakeholders through our unique wisdom for creating beauty.

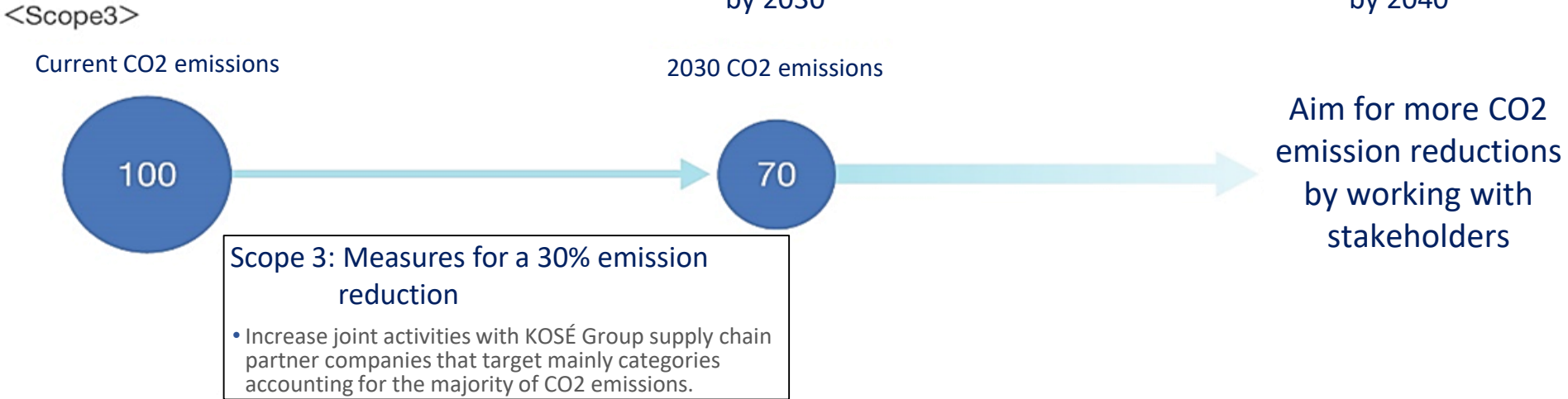
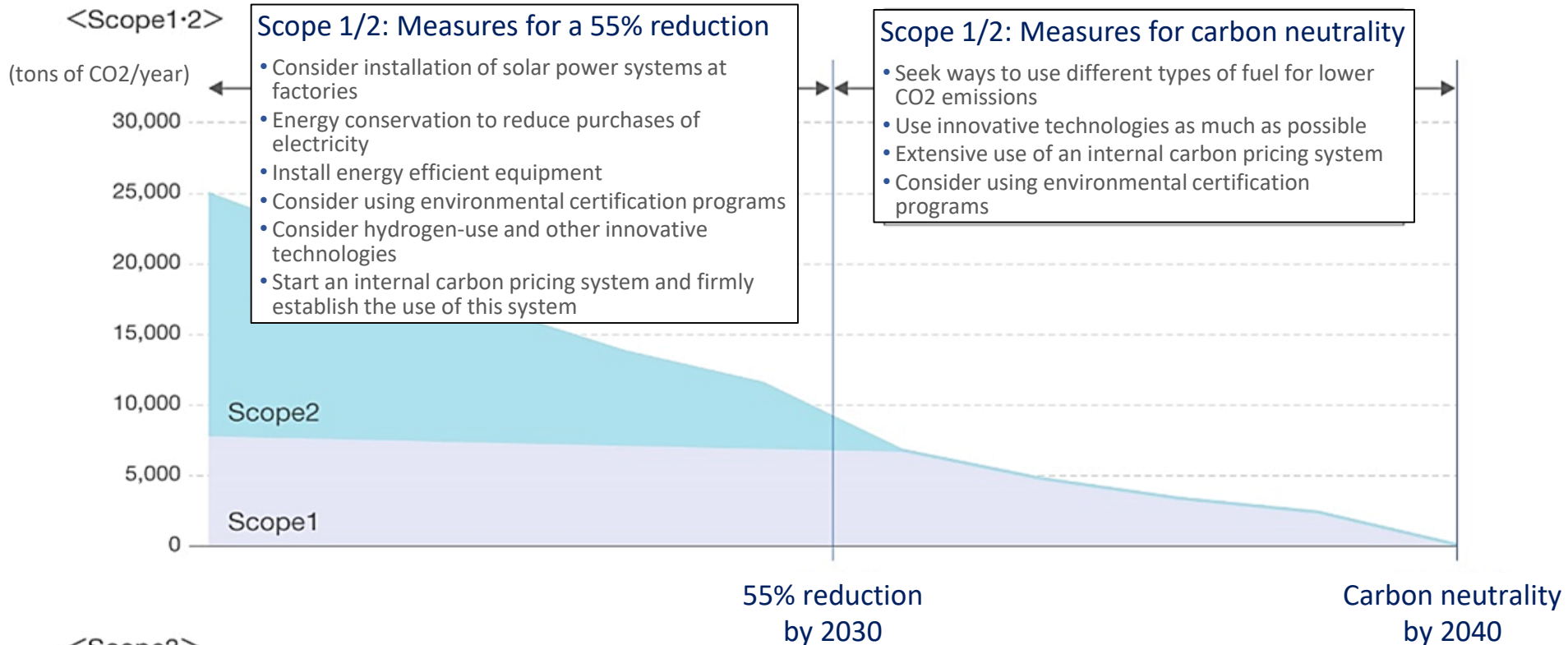


**To Whom:** Expand targets by approaching customers not limited by gender or age

**What:** Provide value that includes the health and cure areas while remaining grounded in beauty

	<To whom> * Biological women	
	Women*	Other than women
Newborn	Sunshine Delight	
Infant	Expand	
Toddler	KidZania Tokyo	
Child	SEKKISEI 雪肌精	
Adolescent	Previous targets	
Prime age adult	Mq MAGNIFIQUE Expand	
Middle aged	Expand	
Elder	Expand	
▼ Expand ▼	Expand	





# Sales Growth Rate by Business Segment

2022				
YoY changes in sales, %	1Q	2Q	1H	Outlook
Consolidated sales*note	(3.7)%	+12.2%	+4.4%	+8.9%
Cosmetics*note	+2.2%	+9.7%	+6.3%	+9.5%
High prestige	+4.6%	+7.7%	+6.3%	+10 - 15%
DECORTÉ	(2.3)%	+3.4%	+0.9%	+10 - 15%
ALBION	+5.1%	+3.1%	+4.0%	Low-single-digit increase
Tarte	+19.5%	+27.1%	+23.6%	High-single-digit increase
Prestige	(10.6)%	(8.3)%	(9.4)%	+10 - 15%
Cosmetaries*note	(21.4)%	+25.2%	(3.0)%	+6.9%
COSMEPORT	(24.2)%	+27.4%	(5.1)%	Mid-single-digit increase
Other	(16.2)%	+14.4%	(2.9)%	+10 - 15%

\* Figures are after applying the Accounting Standard for Revenue Recognition. All other figures are before applying the standard.

	2021			
	Jan. – Mar.	Jan. – Jun.	Jan. – Sep.	Jan. – Dec.
US\$	105.9	107.7	108.5	109.8
CN¥	16.4	16.7	16.8	17.0
KRW	0.10	0.10	0.10	0.10

2022	
Jan. – Mar.	Jan. – Jun.
116.2	122.9
18.3	18.9
0.10	0.10

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