



KOSÉ Corporation

Financial Results Briefing for the Fiscal Year Ended December 2022

February 13, 2023

Event Summary

[Company Name]	KOSÉ Corporation	
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[Event Name]	Financial Results Briefing for the Fiscal Year Ended December 2022	
[Fiscal Period]	FY2022 Annual	
[Date]	February 13, 2023	
[Venue]	Webcast	
[Number of Speakers]	4	
	Kazutoshi Kobayashi	President & CEO
	Shinichi Mochizuki	Director & CFO
	Hiroko Hanakura	General Manager of Investor Relations Department
[Moderator]	Shinko Nanba	Manager of Investor Relations Department

Presentation

Nanba: Thank you very much for taking time out of your busy schedules today to participate in the KOSÉ Corporation Financial Results Briefing for the Fiscal Year Ended December 31, 2022.

Let me begin by introducing today's attendees. This is Kobayashi, President & CEO.

Kobayashi: Thank you very much.

Nanba: This is Director & CFO, Mr. Mochizuki.

Mochizuki: Thank you very much.

Nanba: This is Ms. Hanakura, General Manager of Investor Relations Department.

Hanakura: Thank you very much.

Nanba: The financial results for the fiscal year ended December 31, 2022, disclosed at 3:00 PM today and the materials for this briefing are available on our IR website. Please note that today's meeting is being recorded.

Now, Mr. Mochizuki will explain the details of the financial results.

Mochizuki: My name is Mochizuki from KOSÉ Corporation. We would like to express our sincere gratitude for your continued support of our business. Also, thank you very much for taking time out of your busy schedules today to participate in our web conference.

I would like to present an overview of our financial results for FY2022 based on the materials related to financial results that are available on our IR site on our website.

- ✓ **Net sales** **¥289.1 billion:** up ¥6.1 billion (2.2%) vs. revised plan*; up ¥20.1 billion (7.5%) YoY (up 2.7% excluding forex)
 - YoY change: Although there were negative effects of China's zero-COVID policy, sales increased mainly because of the growth of high-prestige brand sales in Japan and higher sales at Tarte.
 - Vs. revised plan: Sales higher than planned because of sales growth in Japan and at Tarte.
- ✓ **Operating profit** **¥22.1 billion:** up ¥5.6 billion (34.1%) vs. revised plan*; up ¥6.4 billion (41.1%) YoY
 - YoY change: Increased because of sales growth and measures to hold down the cost of sales ratio and SG&A expenses.
 - Vs. revised plan: Higher than planned because of sales growth, measures to hold down the increase in the cost of sales ratio and cost controls in all operations.

Area	2022 Annual sales and operating profit results (Vs. 2021 results/revised plan*)	Evaluation of 2022 (Vs. revised plan*)	
		Net sales	Operating profit
Japan	Sales and profits up mainly due to the high prestige category, with strong sales at both dept. stores and specialty cosmetics stores. The entire cosmetics market recovered, resulting in sales above 2021 and the revised plan. Earnings also above 2021 and the revised plan due to activities to hold down the cost of sales ratio and control marketing expenses.	○	○
China (excluding TR)	Sales and profits were below 2021 and the revised plan. The zero-COVID policy prevented a return to normal economic activity and performance was also impacted by intense e-commerce competition and temporary store closures and reduced hours.	▲	▲
China/South Korea TR	China duty-free sales were above 2021 but slightly below the revised plan. Profits exceeded 2021 and the revised plan. South Korea duty-free sales and profits were far below 2021 but sales reached the revised plan and earnings surpassed the plan due to a lower cost of sales ratio and cost controls.	○	○
Overseas (Tarte)	Sales were higher than 2021 and the revised plan due to strong consumer spending and the yen's depreciation (+6.2% excluding forex). Earnings were lower than in 2021 because of a higher cost of sales ratio and increase in SG&A expenses but were above the revised plan due to strong holiday shopping season sales.	○	○

*Revised plan that was announced November 11, 2022 3

First, the summary on page three shows that on a consolidated basis, net sales were JPY289.1 billion, up JPY20.1 billion or 7.5% from the previous year, and operating profit was JPY22.1 billion, up JPY6.4 billion or 41.1% from the previous year, as announced in the revised announcement on Monday, the 6th of February, last week. As I will explain later in the year review by region, sales, and profits in all regions except China exceeded our expectations in relation to the revised plan announced last November.

Consolidated Income Statement Highlights



- YoY change: Operating profit was higher due to lower cost of sales ratio and SG&A ratio. Ordinary profit was higher due to a big increase in foreign exchange gains. Profit attributable to owners of parent increased YoY.
- Vs. revised plan: Higher than planned because of measures to hold down the increase in the cost of sales ratio and cost controls in all operations.

(billion yen)	2021		2022		Change (amount)	Change (ratio)	2022 Revised plan (announced on Nov. 11, 2022)		Change (amount)	Change (ratio)
	Amount	Ratio to net sales	Amount	Ratio to net sales			Amount	Ratio to net sales		
Net sales	268.9	100.0%	289.1	100.0%	+20.1	+7.5%	283.0	100.0%	+6.1	+2.2%
Cost of sales	81.0	30.1%	83.6	28.9%	+2.5	+3.1%	83.8	29.6%	-0.2	-0.3%
Gross profit	187.8	69.9%	205.5	71.1%	+17.6	+9.4%	199.1	70.4%	+6.3	+3.2%
SG&A expenses	172.2	64.0%	183.3	63.4%	+11.1	+6.5%	182.6	64.5%	+0.7	+0.4%
Operating profit	15.6	5.8%	22.1	7.7%	+6.4	+41.1%	16.5	5.8%	+5.6	+34.1%
Ordinary profit	22.0	8.2%	28.3	9.8%	+6.3	+28.8%	22.6	8.0%	+5.7	+25.6%
Profit before income taxes	20.9	7.8%	27.8	9.6%	+6.8	+32.9%	22.4	7.9%	+5.4	+24.4%
Profit attributable to owners of parent	11.1	4.1%	18.7	6.5%	+7.6	+68.6%	16.5	5.8%	+2.2	+13.8%
Net income per share	-		329.03 yen		-		289.22 yen		+39.81 yen	
ROA	5.2%		6.7%							
ROE	5.1%		7.5%							
Capital expenditures	7.0		6.8							
Depreciation	11.3		9.7							

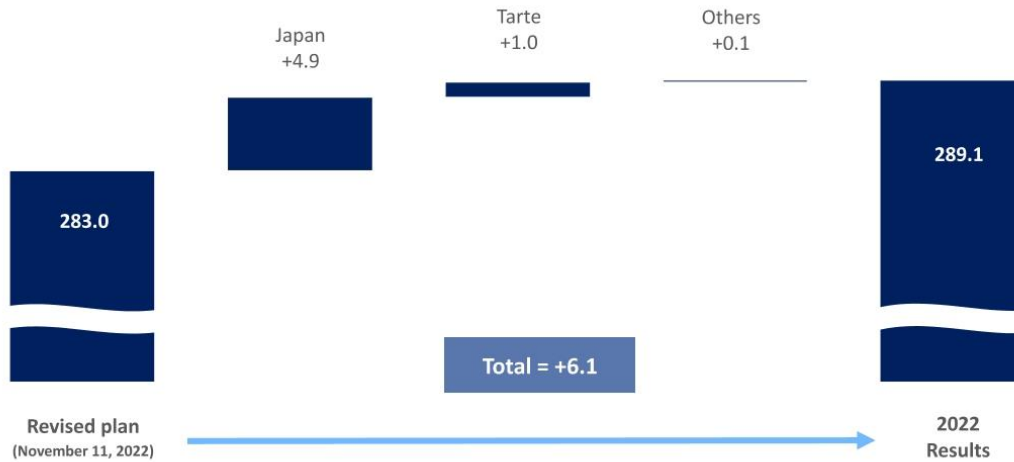
* Changes vs. the revised 2022 plan for sales of business segments and major group companies are on page 40 of the Supplementary Information.

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Page four will be the main items in the P&L. As for operating profit and below, ordinary profit was JPY28.3 billion and net income was JPY18.7 billion, both increased YoY, mainly due to a foreign exchange gain of over JPY4 billion as non-operating income.

➤ Sales were higher than the revised plan because of stronger than anticipated sales growth in Japan and at Tarte.

(billion yen)

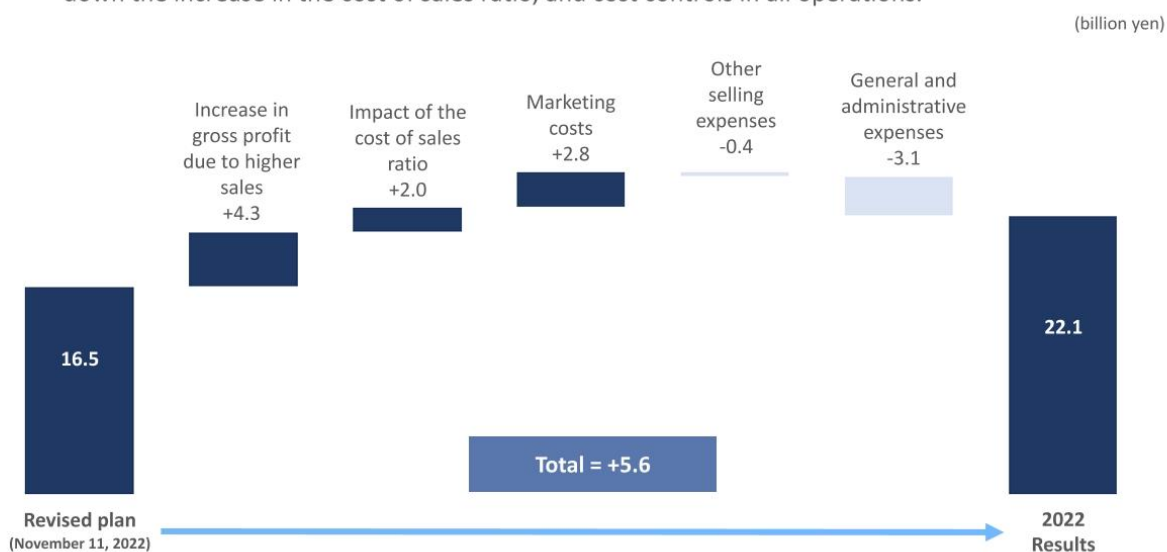


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Page five is a waterfall chart for sales vs. the revised plan. In Japan, purchasing activity was brisk from the second half of November and the momentum continued through the end of the year, while Tarte performed well on Cyber Monday in late November and during the Christmas shopping season in December, resulting in higher-than-expected sales.

Excluding the foreign exchange impact of approximately JPY13 billion from the JPY289.1 billion, the total is approximately JPY276 billion, which is approximately JPY17 billion less than the original plan of JPY293.0 billion.

➤ Operating profit was higher than the revised plan because of sales growth, measures to hold down the increase in the cost of sales ratio, and cost controls in all operations.



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Page six is a waterfall chart of operating profit vs. the revised plan. The largest factor in the increase will be higher sales. In addition, raw material prices rose due to global inflation and the weak yen, but we were able to control the rise in the cost of sales ratio by reducing inventories, mainly in China, and control marketing costs better than expected, resulting in an increase of JPY5.6 billion compared to the revised plan.

It was almost the same level as the JPY22.0 billion planned at the beginning of the year. Of the JPY22.1 billion, approximately JPY4 billion was due to the impact of foreign exchange and inventory reductions, which are transitory factors.

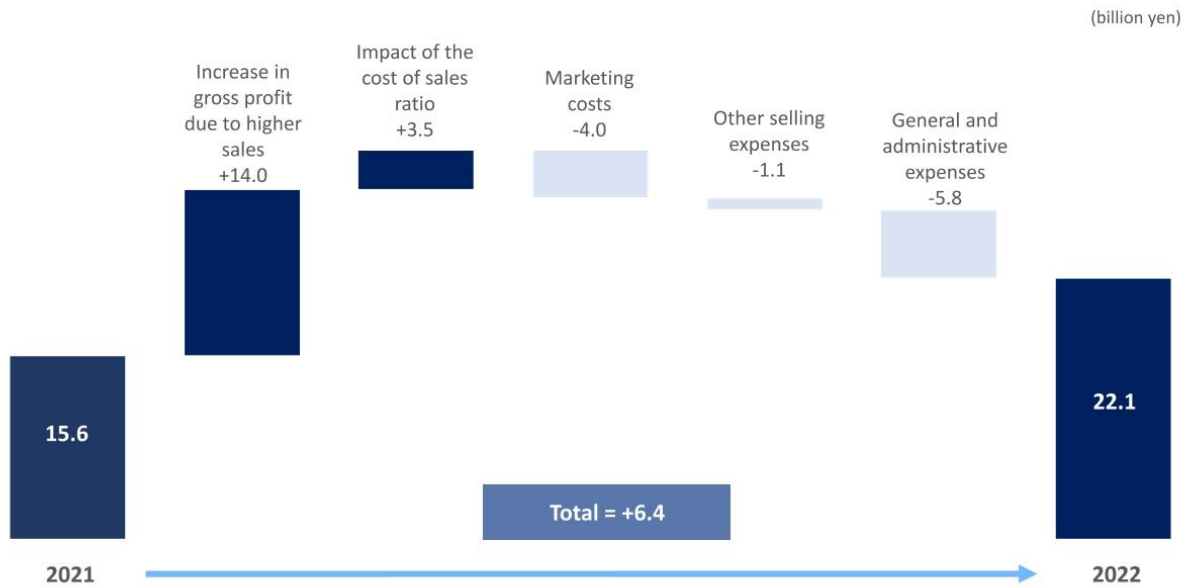
- The cost of sales ratio declined overall including that of KOSÉ Cosmeport, although the ratio was higher for Tarte. A decrease from the previous year in merchandise disposal associated with FASIO and ALBION products also contributed to the improvement in the cost of sales ratio.
- Although general and administrative expenses increased, 4Q marketing cost controls in Japan and China held down the 2022 increase in sales promotion and advertising expenses, resulting in a lower SG&A expense ratio.

(billion yen)	2021			2022			YoY change		
	Amount	(of which 4Q amount)	Ratio to net sales	Amount	(of which 4Q amount)	Ratio to net sales	Amount	Ratio	
Cost of sales	81.0	(22.1)	30.1%	83.6	(23.7)	28.9%	+2.5	+3.1%	
SG&A expenses	172.2	(50.9)	64.0%	183.3	(54.8)	63.4%	+11.1	+6.5%	
Selling expenses	Sales promotion	42.3	(15.5)	15.8%	44.1	(13.9)	15.3%	+1.7	+4.2%
	Advertising	23.4	(8.3)	8.7%	25.7	(9.6)	8.9%	+2.3	+9.8%
	Freightage and packing	16.2	(4.6)	6.0%	17.4	(5.1)	6.0%	+1.1	+7.4%
Subtotal	82.0	(28.4)	30.5%	87.3	(28.7)	30.2%	+5.2	+6.4%	
General and administrative expenses	Personnel	55.1	(13.4)	20.5%	57.2	(14.9)	19.8%	+2.1	+3.9%
	R&D	5.8	(1.4)	2.2%	6.0	(1.6)	2.1%	+0.2	+3.7%
	Depreciation	4.6	(1.1)	1.7%	4.9	(1.2)	1.7%	+0.3	+6.8%
	Others	24.5	(6.4)	9.1%	27.7	(8.3)	9.6%	+3.2	+13.2%
Subtotal	90.1	(22.4)	33.5%	96.0	(26.0)	33.2%	+5.8	+6.5%	

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Page seven shows cost of sales and SG&A expenses. The cost of goods sold decreased 1.2 percentage points from the previous year to 28.9%, of which the cost of goods sold was minus 0.4 percentage points, mainly due to a decline in the cost of goods ratio, and the cost of disposal was minus 0.9 percentage points due to the absence of the disposal of FASIO and ALBION's LADURÉE in the previous year.

Selling, general and administrative (SG&A) expenses totaled JPY183.3 billion, an increase of JPY11.1 billion from the previous year. However, curbing sales promotion expenses, especially in 4Q, kept the annual increase in control, and the SG&A expense ratio was minus 0.6 percentage points from the previous year to 63.4%.



Page eight is a waterfall chart of YoY comparisons in operating profit. The difference between this YoY comparison and the comparison to plan on page six is marketing costs. Although they were controlled vs the plan throughout the year, they increased by approximately JPY4 billion compared to the previous year.

- In the cosmetics segment, sales increased as higher sales of Tarte, DECORTÉ, ALBION, JILL STUART and other high prestige brands offset a decrease in prestige category sales. Operating profit increased because of a lower cost of sales ratio and measures to hold down marketing expenses.
- In the cosmetaries segment, sales and operating profit increased as the return to normal economic activities starting in the 2Q, despite weakness in the hair care category of KOSÉ Cosmeport.

Net sales

Operating segment (billion yen)	2021		2022		YoY change (amount)	YoY change (ratio)	% comp.	
	Amount	(of which 4Q amount)	Amount	(of which 4Q amount)			2021	2022
Cosmetics	217.7	(69.5)	234.9	(74.2)	+17.2	+7.9%	80.9%	81.3%
Cosmetaries	49.1	(11.9)	52.2	(13.4)	+3.0	+6.2%	18.3%	18.1%
Others	2.0	(0.6)	1.9	(0.6)	-0.1	-6.3%	0.8%	0.7%
Total	268.9	(82.1)	289.1	(88.2)	+20.1	+7.5%	100.0%	100.0%

Operating profit

Operating segment (billion yen)	2021		2022		YoY change (amount)	YoY change (ratio)	Operating margin	
	Amount	(of which 4Q amount)	Amount	(of which 4Q amount)			2021	2022
Cosmetics	19.7	(9.1)	25.4	(9.9)	+5.6	+28.5%	+9.1%	+10.8%
Cosmetaries	0.3	(0.8)	1.1	(0.8)	+0.7	+182.0%	+0.8%	+2.1%
Others	0.7	(0.2)	1.0	(0.2)	+0.2	+36.9%	+36.6%	+40.9%
Adjustment	-5.2	(-1.1)	-5.4	(-1.4)	-0.1	-	-	-
Total	15.6	(9.0)	22.1	(9.6)	+6.4	+41.1%	+5.8%	+7.7%

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Page nine shows revenue by segment. In the cosmetics business, both sales and profit increased due to a significant contribution from high prestige brands. The operating profit margin also recovered to double digits at 10.8%.

In the cosmetaries business, although sales in Japan struggled more than expected in 1Q due to the impact of priority measures to prevent the spread of the coronavirus disease, sales gradually returned as the market recovered from 2Q onward. As a result, the 1H loss was reversed, operating profit increased JPY0.7 billion from the previous year, and the operating profit margin is showing signs of recovery.

Global Sales of Major Group Companies and Major Brands



- ALBION sales and profits increased, with a big upturn in profits following the loss on disposal of merchandise in 2021.
- Small sales increase of KOSÉ Cosmeport but profits down due to high cost of sales ratio and increase in SG&A expense.
- Big sales increase at Tarte due to the yen's depreciation but profits fell sharply due to increases in the cost of sales and SG&A expenses.

- Double-digit sales growth of DECORTÉ in Japan continued, but there were challenges in mainland China and the South Korea travel retail sector.
- SEKKISEI sales throughout 2022 decreased but sales are recovering in Japan and the China travel retail sectors.

Major group companies (billion yen)	ALBION						KOSÉ Cosmeport						Tarte					
	2021		2022		YoY change (ratio)		2021		2022		YoY change (ratio)		2021		2022		YoY change (ratio)	
	Japan	Asia/ others	Japan	Asia/ others	Japan	Asia/ others	Japan	Asia/ others	Japan	Asia/ others	Japan	Asia/ others	North America	Europe/ others	North America	Europe/ others	North America	Europe/ others
1Q	8.9	1.9	10.0	1.5	+13.2%	-18.1%	9.9	0.0	7.7	0.0	-22.0%	-100.0%	6.2	0.8	7.1	1.2	+14.5%	+58.7%
2Q	10.3	2.3	10.9	2.2	+6.3%	-5.1%	6.1	0.0	7.2	0.0	+19.2%	+104.9%	7.3	1.1	9.0	1.7	+22.5%	+57.3%
3Q	10.5	2.2	10.8	1.6	+3.0%	-25.6%	7.8	0.0	8.9	0.0	+13.8%	+88.2%	7.5	1.3	10.3	1.7	+36.1%	+36.1%
4Q	11.6	3.1	11.7	3.2	+0.4%	+4.5%	7.5	0.0	8.3	0.0	+10.7%	-50.0%	10.5	1.3	12.8	2.0	+21.3%	+54.8%
Subtotal	41.4	9.6	43.6	8.7	+5.3%	-9.3%	31.4	0.0	32.3	0.0	+2.8%	+8.1%	31.8	4.5	39.3	6.8	+23.8%	+50.7%
Total sales	51.0		52.3		+2.6%		31.4		32.3		+2.8%		36.3		46.2		+27.1%	
OP (ratio)	0.0 (0.0%)		3.3 (6.5%)		-		1.8 (5.9%)		0.6 (1.9%)		-66.4%		6.3 (17.5%)		4.6 (10.2%)		-26.1%	

Major brands (billion yen)	DECORTÉ						SEKKISEI					
	2021		2022		YoY change (ratio)		2021		2022		YoY change (ratio)	
	Japan	Overseas	Japan	Overseas	Japan	Overseas	Japan	Asia/ others	Japan	Asia/ others	Japan	Asia/ others
1Q	4.7	13.4	5.9	11.7	+26.9%	-12.5%	1.8	0.8	1.7	0.7	-2.3%	-13.9%
2Q	4.9	18.7	6.8	17.6	+39.9%	-6.1%	2.4	1.1	1.6	1.1	-32.2%	-0.1%
3Q	5.2	12.6	6.6	14.2	+27.5%	+12.6%	1.7	0.7	1.7	1.0	-0.4%	+45.2%
4Q	7.3	22.4	9.3	23.6	+27.3%	+5.7%	2.0	1.2	2.2	1.2	+10.1%	+2.1%
Subtotal	22.1	67.3	28.8	67.3	+30.0%	+0.1%	8.0	3.9	7.3	4.1	-7.7%	+5.9%
Total sales	89.5		96.2		+7.5%		11.9		11.5		-3.2%	

*The Accounting Standard for Revenue Recognition is applied for major group companies.

*The Accounting Standard for Revenue Recognition is not applied for major brands.

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Page 10 shows global sales of major group companies and major brands. ALBION posted higher sales and profits on better inbound sales, and its operating margin improved to 6.5%.

KOSÉ Cosmeport's sales did not grow as much as market costs put in place, and the cost of sales ratio was on the way to improvement, resulting in a decrease in profit. However, this was largely due to sluggish performance in China, while the operating profit margin recovered to the mid-single digits in the domestic business.

Tarte sales increased, but profits declined significantly due to a higher cost of sales ratio resulting from soaring raw material prices and increased disposal, as well as higher labor costs. However, the operating profit margin remains in the double digits.

DECORTÉ achieved double-digit sales growth in Japan, and overseas sales were almost the same as the previous year, as struggling sales in mainland China and South Korea was covered by rising sales in China travel retail.

Sales of SEKKISEI were down for the year. However, sales in August last year increased YoY for the first time in approximately 34 months as a result of re-focusing classic series during the period in Japan, and the momentum continued in 4Q.

- In Japan, sales increased along with the resumption of normal consumer activity as pandemic restrictions are eased.
- In Asia, a small increase in sales despite the negative effects of zero-COVID policy in mainland China and South Korea; sales growth was the result of a sales rebound in the second half, mainly in the China travel retail sector.
- In North America and other regions, sales increased because of steady consumer spending and the effect of yen's depreciation.

(billion yen)	2021			2022			YoY change (amount)	YoY change (ratio)
	Amount	(of which 4Q amount)	Ratio to net sales	Amount	(of which 4Q amount)	Ratio to net sales		
Japan	151.9	(43.2)	56.5%	163.0	(46.0)	56.4%	+11.0	+7.3%
Asia	80.3	(26.8)	29.9%	80.7	(27.6)	27.9%	+0.3	+0.5%
North America	32.7	(10.9)	12.2%	40.1	(13.0)	13.9%	+7.4	+22.7%
Others	3.9	(1.1)	1.5%	5.1	(1.5)	1.8%	+1.2	+32.0%
Total	268.9	(82.1)	100.0%	289.1	(88.2)	100.0%	+20.1	+7.5%
Overseas sales	117.0	(38.9)	43.5%	126.0	(42.2)	43.6%	+9.0	+7.7%

11

Page 11 provides a summary of sales by region. Japan's growth rate of 7.3% is almost the same as the overall growth rate.

Asia, as I mentioned earlier, showed a slight increase, mainly due to struggling sales in mainland China and South Korea travel retail.

In addition, sales in North America and Others increased significantly due to steady growth in Tarte and the weak yen factor.

- Sales of high-prestige brands continued to be strong at department stores and specialty cosmetics stores.
- Although sales in the drug store and other mass retail channels were slow throughout 2022, cosmetaries sales growth starting in the 2Q and SEKKISEI (prestige category) sales growth starting in the 4Q offset the 1Q sales downturn caused by pandemic restrictions.

(billion yen)	2021	2022	YoY change (amount)	YoY change (ratio)
Total	151.9	163.0	+11.0	+7.3%
1Q	37.9	36.5	-1.3	-3.6%
2Q	33.7	39.2	+5.4	+16.0%
3Q	37.0	41.2	+4.1	+11.3%
4Q	43.2	46.0	+2.8	+6.6%

Market Trends

Japan	<ul style="list-style-type: none"> ■ Inflation fueled by the yen's depreciation and high cost of crude oil ■ The number of COVID cases in Japan increased slowly between late October and December.
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Overall	<ul style="list-style-type: none"> ■ Strong sales growth of DECORTÉ continued.
High prestige	<ul style="list-style-type: none"> ■ Sales of the DECORTÉ LIPOSOME Series (beauty serums and creams) were consistently strong, backed by growth in the number of new customers and repeat purchases. ■ Eye color products at JILL STUART and base makeup products at ADDICTION each increased as a percentage of their respective product categories.
Prestige	<ul style="list-style-type: none"> ■ Overseas sales of SEKKISEI stopped falling in the 3Q and sales in Japan started increasing in the 4Q. ■ Carté HD is steadily increasing its market share.
Cosmetaries	<ul style="list-style-type: none"> ■ At KOSÉ Cosmeport, sheet masks continued to contribute to sales growth but sales in the hair care category were weak. ■ Strong sales of Visée, FASIO and other makeup brands.

From page 12 onward, the explanation is by region. Sales in Japan totaled JPY163.0 billion, up JPY11.0 billion from the previous year. In the 1Q of the last year, Japan was severely affected by the coronavirus pandemic, including the priority measures to prevent the spread of disease, but while the seventh and eighth waves also occurred, economic activity has steadily resumed, and customers have returned to the stores.

Among them, DECORTÉ, JILL STUART, and ADDICTION, as well as cosmetaries, generally performed well and drove sales.

On the other hand, although prestige struggled throughout the year more than expected at the beginning of the year, there is some positive news, such as the growth of Carte HD for sensitive skin.

- Strong travel retail sales in China and a recovery starting in the e-commerce sector, but offline sales are still sluggish even after the December end of pandemic restrictions because of the rising number of infections.
- South Korea travel retail sales were held down by the dollar's strength vs. the won and intense competition with the China travel retail sector.

(billion yen)	2021	2022	YoY change (amount)	YoY change (ratio)
Total	80.3	80.7	+0.3	+0.5%
1Q	16.2	14.0	-2.2	-13.5%
2Q	21.4	22.0	+0.5	+2.7%
3Q	15.8	17.0	+1.2	+7.8%
4Q	26.8	27.6	+0.7	+2.9%

Market Trends	
China (mainland)	<ul style="list-style-type: none"> ■ The continuation of the zero-COVID policy held down the economy. Restrictions ended on December 7, but the severity of the pandemic started rising rapidly. ■ Sales of Chinese cosmetic brands are increasing.
China (duty-free)	<ul style="list-style-type: none"> ■ Negative effect of travel restrictions due to the zero-COVID policy but demand for cosmetics is recovering.
South Korea (duty-free)	<ul style="list-style-type: none"> ■ Pandemic restrictions are declining and economic activity is returning to normal, but the dollar continues to strengthen vs. the won.

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China (Mainland)	<ul style="list-style-type: none"> ■ Offline sales were impacted by temporary store closings and reduced hours due to the zero-COVID policy. Store restrictions ended in December but customer numbers remained low due to fear of infection. ■ Sales decreased because of lower advertising and logistics expenses for Singles Day (November 11).
China (duty-free)	<ul style="list-style-type: none"> ■ Sales have started recovering on Hainan Island and mainland China despite the negative effects of restrictions on travel due to the zero-COVID policy. ■ Sales were strong, mainly e-commerce.
South Korea (duty-free)	<ul style="list-style-type: none"> ■ Sales declined because of the dollar's strength vs. the won, travel restrictions in China and slowing economic growth in China.

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Next, in Asia on page 13, sales were almost flat in yen terms, but slightly negative in local currency terms.

In China, travel retail and mainland online sales are recovering, while offline sales are struggling.

In South Korea, travel retail sales and profits declined significantly due to extremely tight inventory control by duty-free distributors as a result of the strong dollar against the won since the middle of the year, and travel restrictions in China.

- Tarte’s store sales has recovered to the 2019 level and the annual sales growth rate was higher than for the entire prestige makeup market in the United States.
- Strong sales backed by firm consumer spending; a big increase in yen-denominated sales because of the yen’s depreciation.

(billion yen)	2021	2022	YoY change (amount)	YoY change (ratio)
Total	36.6	45.3	+8.6	+23.7%
1Q	7.0	8.3	+1.2	+18.1%
2Q	8.5	10.3	+1.8	+21.1%
3Q	8.8	11.9	+3.1	+35.5%
4Q	12.1	14.5	+2.4	+20.1%

Market Trends	
USA	<ul style="list-style-type: none"> ■ Consumer spending remains firm despite the possibility of an economic downturn affected by high inflation and interest rates.
Europe	<ul style="list-style-type: none"> ■ Although the rise in energy prices has stopped for now, inflation remains high and monetary tightening, creating downward pressure on the economy.

Tarte	
Overall	<ul style="list-style-type: none"> ■ Sales during the holiday shopping season were higher than in 2021. Growth of gift sales and successful SNS promotions have improved brand presence of Tarte during the holiday shopping season. ■ Tarte retains high market shares in the concealer, mascara and other key categories. ■ In the lip product category, sales of the maracuja juicy lip series are climbing. ■ Opened new stores during 2022.
North America	<ul style="list-style-type: none"> ■ Holiday season sales at ULTA stores contributed to growth. ■ Success of Cyber Monday (online sales event on the Monday after Thanksgiving) promotions resulted in big increases in sales at Kohl’s and Target.
Europe	<ul style="list-style-type: none"> ■ Strong start of online sales at Sephora UK, which opened in October 2022. ■ Sales increased, especially for merchandise that is popular during the holiday selling season.

Next, Tarte’s annual store sales has recovered to the level of 2019, and the annual growth rate exceeds the overall US prestige makeup market.

However, although the growth of sent goods was in the mid-single digits (plus 6.2%) in local currency terms, it did not reach the forecast throughout the year, except in December, due to inventory control by distributors, as was the case in Korea Duty Free.

➤ E-commerce sales were strong in Japan, North America and other regions and sales in China recovered in the 3Q.

EC (billion yen)	Total		YoY change	Japan			China			Other Asian countries			North America, others		
	2021	2022		2021	2022	YoY change	2021	2022	YoY change	2021	2022	YoY change	2021	2022	YoY change
Total	38.8	43.8	+13.0%	9.3	11.2	+20.1%	19.9	21.2	+6.4%	0.3	0.4	+16.7%	9.0	10.8	+20.2%
1Q	7.0	8.0	+13.8%	2.0	2.8	+36.7%	3.0	3.2	+4.4%	0.0	0.1	+42.5%	1.8	1.8	+2.1%
2Q	10.1	10.2	+1.0%	2.1	2.3	+11.0%	5.8	5.2	-10.7%	0.0	0.0	-9.4%	2.0	2.5	+22.9%
3Q	7.0	7.5	+6.7%	2.3	2.4	+1.9%	2.5	2.7	+6.6%	0.1	0.1	+21.1%	1.9	2.2	+12.6%
4Q	14.5	18.0	+24.1%	2.7	3.6	+30.3%	8.4	10.0	+18.9%	0.1	0.1	+12.1%	3.1	4.2	+33.5%

➤ Travel retail sales were affected by travel restrictions in China and the dollar's strength vs. the won in South Korea, but slightly increased due to the recovery in China from 3Q.

TR (billion yen)	Total		YoY change	Japan			China			South Korea			Others		
	2021	2022		2021	2022	YoY change	2021	2022	YoY change	2021	2022	YoY change	2021	2022	YoY change
Total	48.1	48.8	+1.5%	0.4	1.3	+238.7%	27.0	30.2	+11.8%	20.2	16.7	-17.6%	0.4	0.5	+24.5%
1Q	10.7	9.0	-15.2%	0.0	0.1	+127.8%	5.8	6.5	+12.9%	4.6	2.3	-49.8%	0.1	0.0	-77.8%
2Q	13.2	13.0	-1.5%	0.1	0.1	+58.5%	8.2	5.8	-29.3%	4.7	6.8	+45.0%	0.1	0.1	+4.6%
3Q	9.9	12.1	+21.5%	0.1	0.6	+422.9%	4.4	8.3	+89.3%	5.3	2.8	-47.2%	0.0	0.2	+243.5%
4Q	14.2	14.6	+2.7%	0.0	0.3	+283.8%	8.5	9.4	+10.9%	5.5	4.6	-15.6%	0.0	0.1	+120.0%

Offline (billion yen)	China		
	2021	2022	YoY change
Total	9.9	5.9	-39.9%
1Q	1.7	1.3	-22.4%
2Q	2.6	2.3	-9.8%
3Q	2.2	0.6	-69.1%
4Q	3.3	1.5	-53.2%

* The Accounting Standard for Revenue Recognition is not used.

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Page 15 shows EC and travel retail sales. Despite regional differences, EC generally performed well, with net sales of JPY43.8 billion, up JPY5.0 billion from the previous year.

Travel retail sales increased only slightly by JPY0.7 billion over the previous year, but the negative growth in South Korea was almost offset by the positive growth in China.

Balance Sheet and Cash Flow Highlights



➤ Total assets amounted to ¥359.6 billion and equity ratio was above 70%.

BS (billion yen)	As of December 31, 2021		As of December 31, 2022		Change Amount
	Amount	Share	Amount	Share	
Current assets	217.3	67.9%	244.4	68.0%	+27.1
Cash and deposits	105.2	32.9%	116.5	32.4%	+11.2
Accounts receivable	44.2	13.8%	52.4	14.6%	+8.2
Inventories	63.7	19.9%	69.0	19.2%	+5.3
Non-current assets	102.6	32.1%	115.1	32.0%	+12.4
Property, plant and equipment	59.5	18.6%	63.9	17.8%	+4.3
Intangible assets	14.2	4.5%	14.4	4.0%	+0.1
Total assets	320.0	100.0%	359.6	100.0%	+39.5
Current liabilities	59.1	18.5%	67.5	18.8%	+8.4
Accounts payable	23.7	7.4%	25.3	7.1%	+1.6
Short-term borrowings	0.6	0.2%	1.3	0.4%	+0.7
Non-current liabilities	6.6	2.1%	16.6	4.6%	+10.0
Total liabilities	65.7	20.5%	84.2	23.4%	+18.4
Total net assets	254.2	79.5%	275.3	76.6%	+21.0
Shareholders' equity*	238.3	74.5%	258.9	72.0%	+20.6
Non-controlling interests	15.9	5.0%	16.3	4.5%	+0.4
Total liabilities and net assets	320.0	100.0%	359.6	100.0%	+39.5

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

➤ ¥12.1 billion increase in cash due to higher profits.

CF (billion yen)	2021 (Jan-Dec)	2022 (Jan-Dec)
Profit before income taxes	+20.9	+27.8
Depreciation	+11.3	+9.7
Decrease (increase) in trade receivables	-3.2	-7.4
Decrease (increase) in inventories	-2.6	-3.0
Increase (decrease) in trade payables	-2.5	+1.1
Others	+2.5	-8.9
Cash flows from operating activities	+26.5	+19.3
Capital expenditures	-7.0	-6.8
(Increase) decrease in time deposits	+0.2	+1.6
Cash flows from investing activities	-5.3	-5.3
Funds procured from external sources and repayments	-7.0	+0.6
Cash dividends paid	-7.2	-7.8
Cash flows from financing activities	-14.3	-7.3
Effect of exchange rate change on cash and cash equivalents	3.5	5.5
Change in cash and cash equivalents	+10.4	+12.1
Cash and cash equivalents at beginning of period	71.4	81.8
Cash and cash equivalents at end of period	81.8	94.0

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As for the balance sheet, since we specialize in the cosmetics business and have virtually no debt, our overall balance sheet improves as our business performance improves, resulting in a healthy equity ratio of 72%.

Cash flow is also increasing due to the recovery of sales. In addition, cash outflow of more than JPY8 billion, which was expected at the beginning of the year to fund the construction of the Minami Alps Factory (tentative name), has been pushed back, and cash is now accumulating due to the postponement of the plan.

2023 Sales Plan (Regional/Business Segment/ Major Group Companies)



Region (YoY change)	2022 sales (%)	2023 sales plan (%)	2023 outlook
Japan	+7.3%	+5-7%	Economic recovery likely to continue due to the resumption of economic activities following the end of most pandemic restrictions but overseas economic downturns may limit the growth of Japan's economy.
China (excluding TR)	+1.4%	+10%	Consumer spending will probably recover following the end of pandemic restrictions and a full-scale recovery of cosmetics demand is expected.
China/South Korea TR	-0.8%	+2-5%	China duty-free sales are expected to increase, mainly on Hainan Island, but South Korea's heated duty-free competition with China is likely to continue.
Overseas (Tarte)	+27.1%	No change	Although inflation is slowing, inflation and interest rates will probably remain high and economic growth will decline. No change in sales due to the outlook for a continuation of the reduction in inventories at distributors.

➤ In the cosmetics segment, sales growth is expected to continue, chiefly in the high prestige category, but the growth rate will probably decline. Somewhat slower growth is also expected in the cosmetaries segment.

➤ Forecast a moderate economic recovery to continue in Japan and China as economic activity returns to normal but forecast no change in sales at Tarte and KOSÉ Korea.

Segment (YoY change)	2022 sales (%)	2023 sales plan (%)
Consolidated sales ^{*note 1}	+7.5%	+5.5%
Cosmetics ^{*note 1}	+7.9%	+6.3%
High prestige	+10.0%	+6%
DECORTÉ	+7.5%	+6%
Prestige	-6.0%	+5%
SEKKISEI	-4.1%	+10%
Cosmetaries ^{*note 1}	+6.2%	+1.8%

Major group companies (YoY change)	2022 sales (%)	2023 sales plan (%)	
JPY	ALBION	+1.4%	+5%
	KOSÉ Cosmeport	+2.6%	+2%
	KOSÉ China ^{*note 1, 2}	+1.4%	+10%
	KOSÉ Korea ^{*note 1}	-20.3%	+2%
	Tarte ^{*note 1}	+27.1%	No change
Local currency	KOSÉ China ^{*note 1, 2}	-11.3%	+9%
	KOSÉ Korea ^{*note 1}	-24.7%	+1%
	Tarte ^{*note 1}	+6.2%	No change

Note 1: Figures are after applying the Accounting Standard for Revenue Recognition. All other figures are before applying the standard. Note 2: KOSÉ China sales includes online and offline operations and does not include travel retail.

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Starting on page 17, we will explain our sales plan for FY2023. First, regarding sales by region, while we expect Japan's economy to pick up strongly on the back of the resumption of economic activity, we see a growth rate of 5% to 7%, considering the possibility of being affected by the economic slowdown in Europe and North America, and the fact that the growth rate of DECORTÉ is expected to settle down compared to the previous year.

In China, we have a bullish plan for a 10% YoY increase in sales in anticipation of revenge consumption in 2Q and beyond due to the lifting of the zero-COVID policy.

On the other hand, in travel retail, as I mentioned earlier, China and South Korea are expected to offset their sales each other, so we expect a 2% increase over the previous year, but if both countries grow, we expect an increase of about 5%.

Tarte is unchanged due to continued tightening of monetary policy in the US and Europe, which is expected to slow the economy, plus distribution inventory controls that are expected to continue to curb sent goods.

Then, in terms of brands, we expect growth of about plus 6% in high prestige, as we expect Tarte to remain flat, and about plus 5% in prestige, as we are recovering mainly from SEKKISEI's classics.

For cosmetaries, we set low as 1.8% plus due to an expected decrease in sales due to the discontinuation of the brand and other factors.

Plans by major group companies are shown in the table below.

- Although the economies of Japan and China are expected to recover, 2023 sales growth of 5.5% of forecast because of a decline following the 2022 sales boost from the yen's depreciation and the outlook for slower U.S. economic growth.
- Forecast a decrease in operating profit because of substantial marketing expenditures and the end of the positive effect of the yen's depreciation.
- Forecast big declines in ordinary profit and profit attributable to owners of parent because no contribution from foreign exchange rate changes is anticipated.

(billion yen)	2022 results		2023 plan		YoY change (amount)	YoY change (ratio)
	Amount	Ratio to net sales	Amount	Ratio to net sales		
Net sales	289.1	100.0%	305.0	100.0%	+15.8	+5.5%
Cosmetics	234.9	81.3%	249.8	81.9%	+14.8	+6.3%
Cosmetaries	52.2	18.1%	53.1	17.4%	+0.9	+1.8%
Others	1.9	0.7%	2.0	0.7%	+0.0	+3.4%
Operating profit	22.1	7.7%	21.0	6.9%	-1.1	-5.1%
Ordinary profit	28.3	9.8%	20.3	6.7%	-8.0	-28.5%
Profit attributable to owners of parent	18.7	6.5%	13.3	4.4%	-5.4	-29.1%
Net income per share	329.03 yen		233.11 yen			
ROA		6.7%		5.6%		
ROE		7.5%		4.7%		
Capital expenditures		6.8		21.8		
Depreciation		9.7		10.8		

Foreign exchange rate		
Currency	2022 results	2023 estimate
US dollar/Yen	131.4	130.0
Chinese yuan/Yen	19.4	19.5
Korean won/Yen	0.101	0.102

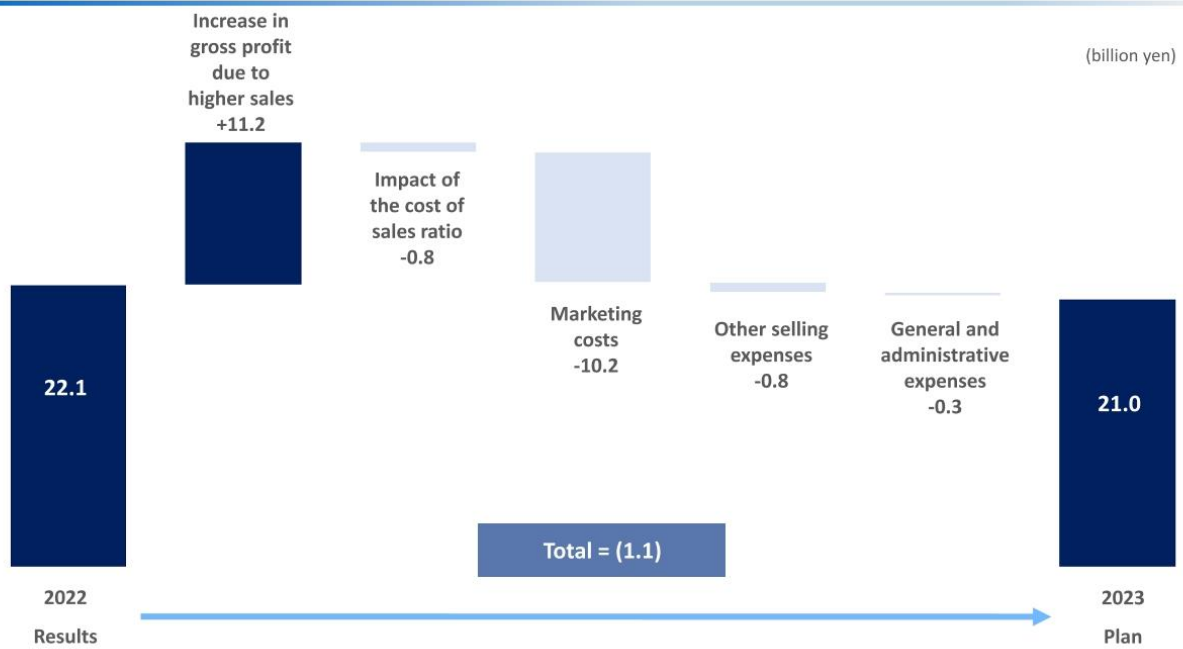
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For the current fiscal year, we are forecasting net sales of JPY305.0 billion and operating profit of JPY21.0 billion based on the assumptions just made.

As mentioned on page five, excluding the impact of foreign exchange rates, FY2022 sales were about JPY275.0 billion, and we expect FY2023 sales to grow at a rate of more than 10% compared to that level.

Also, as explained on page six, operating profit, excluding one-time factors, was about JPY18 billion last fiscal year, so we have set our profit plan at nearly 15% over that figure.

Ordinary profit and net income are expected to decrease, due in part to the fact that foreign exchange gains of about JPY4 billion were recorded last year, but no foreign exchange factors are expected this fiscal year.

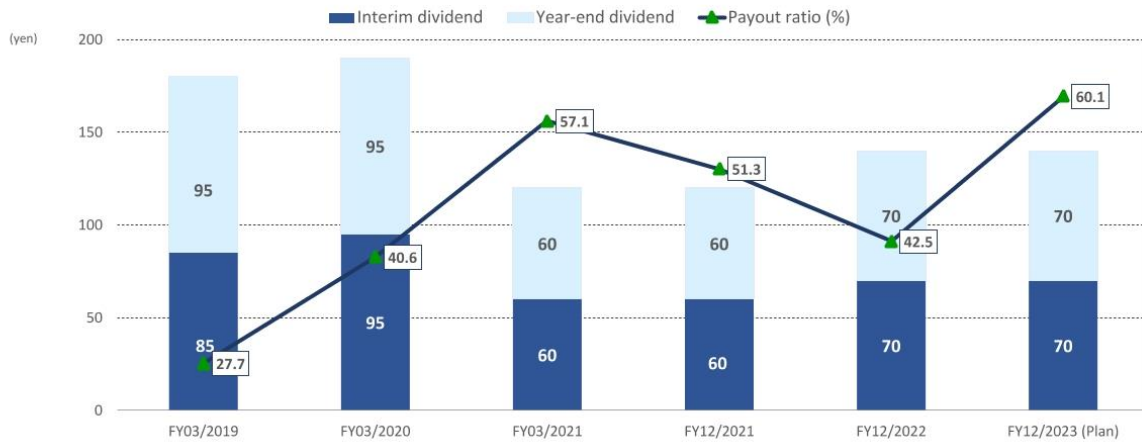


Page 19 is a waterfall chart of the operating profit plan, which will significantly increase marketing costs this fiscal year. In addition to further strengthening the activities of DECORTÉ and ALBION in Japan, and reinvesting in China, where a macroeconomic recovery is expected, we plan to start cultivating the market for the future, especially in regions outside Greater China, mainly the United States.

➤ For dividends, the basic policy is to pay a dividend consistently and make payments that reflect the current financial condition, results of operations, payout ratio and other factors while retaining sufficient earnings for more growth.

Year-end dividend for 2022: Due to the accomplishment of the initial plan for profit attributable to owners of parent, there is no change to the initial plan for the dividend: year-end payments of ¥70, resulting in an annual dividend of ¥140.

Dividend for 2023: Plan to pay the same dividend of ¥140 (¥70 interim and year end) despite the outlook for a decrease in profit attributable to owners of parent.



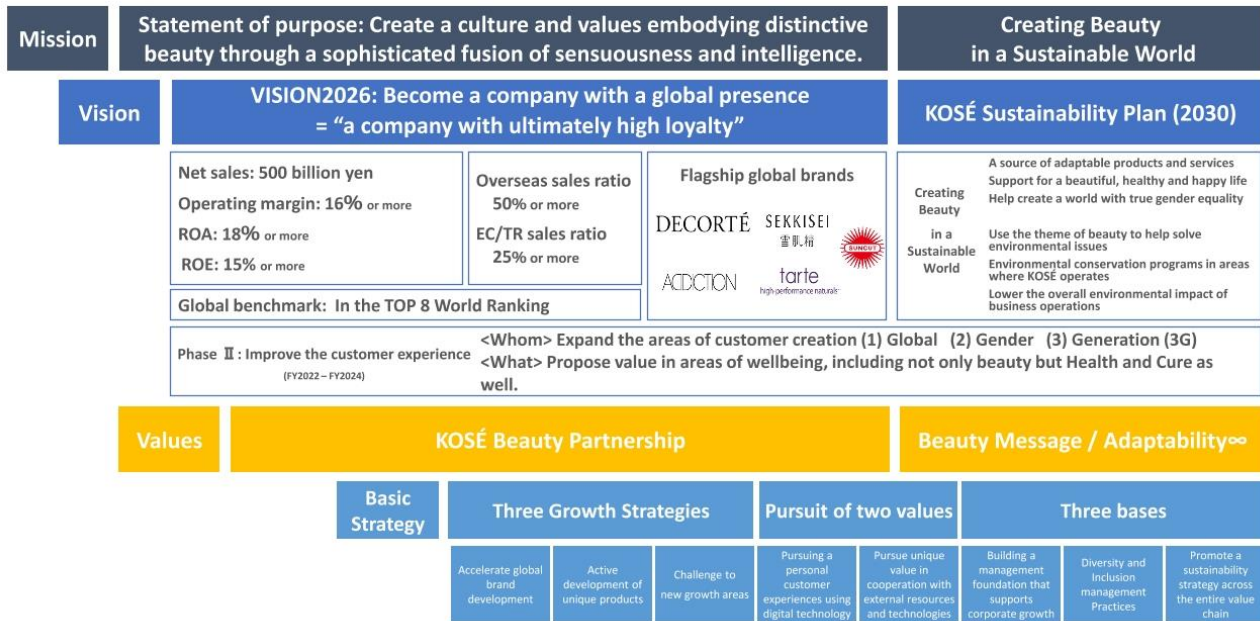
Finally, we discuss dividends. For FY2022, we plan to pay a year-end dividend of JPY70 per share, which together with the interim dividend of JPY70 per share, will result in an annual dividend of JPY140 per share. Although profits are expected to decrease this fiscal year, both the interim and year-end forecasts remain unchanged and are assumed to be JPY140, the same as last year. The dividend payout ratio is about 60%, which is one of the highest in the past.

That is all for my explanation. Thank you very much.

Nanba: Now, President Kobayashi will explain the progress of VISION2026 and future initiatives.

Kobayashi: My name is Kobayashi. Thank you very much for taking time out of your busy schedules to join us today.

I would like to review the FY2022, which has ended, and talk about our efforts in FY2023.



This is a summary of our corporate philosophy and strategy system. As a new area of expansion for customer creation, we have set the three Gs as keywords, adding global, gender, and generation to the list of keywords from FY2022. The three Gs will be explained later.

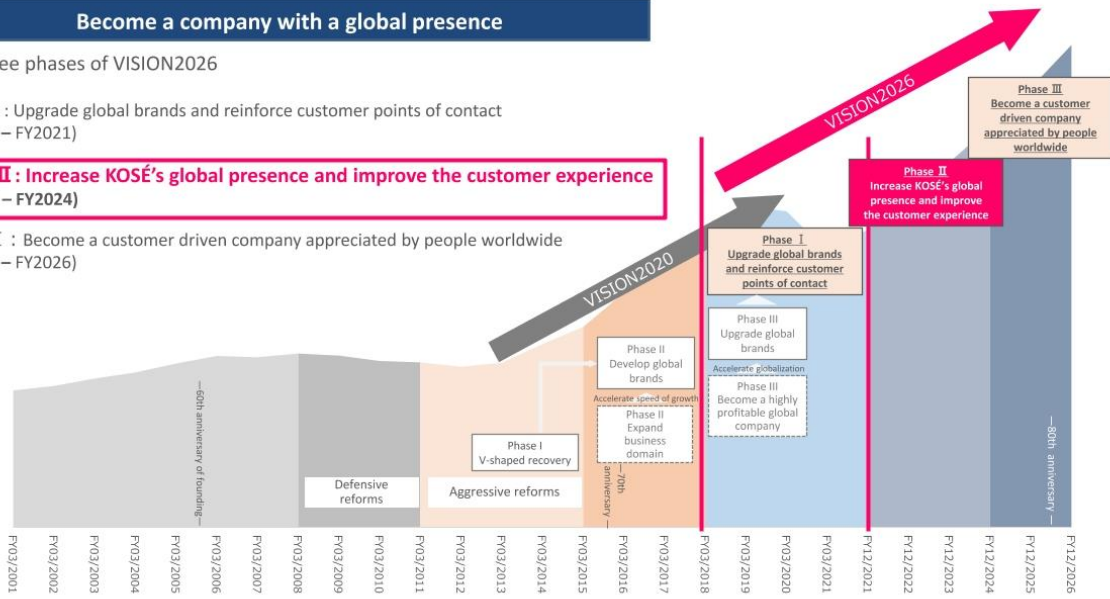
Become a company with a global presence

The three phases of VISION2026

Phase I : Upgrade global brands and reinforce customer points of contact (FY2018 – FY2021)

Phase II : Increase KOSÉ's global presence and improve the customer experience (FY2022 – FY2024)

Phase III : Become a customer driven company appreciated by people worldwide (FY2025 – FY2026)



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Beginning in 2023, we will continue to work toward "increase KOSÉ's global presence and improve the customer experience" and will continue this year to expand our presence in the global market and pursue further customer experience.

Key initiatives	Activities
(1) Target China and travel retail for growth	<ul style="list-style-type: none"> ➤ Activities reflecting the increasing diversity of EC channels in China; use more EC platforms in addition to Tmall ➤ Start sales at duty-free stores outside Asia (started sales at Lotte Duty Free in Sydney (DECORTÉ) and exhibited at TFWA Cannes in 2022)
(2) Increase brand value	<ul style="list-style-type: none"> ➤ Enhancing digital communication (Tarte's TikTok promotion had a positive influence) ➤ Introduced a sophisticated makeup simulator at Maison KOSÉ Ginza that utilizes projection mapping technology
(3) Post-COVID structural reforms and new growth strategy	<ul style="list-style-type: none"> ➤ Activities for increasing younger customers at DECORTÉ and ALBION ➤ Increasing the number of stores selling Tarte products in Britain and Europe ➤ Started genderless marketing activities for Visée and SEKKISEI
(4) Activities based on the sustainability strategy	<ul style="list-style-type: none"> ➤ Established the goal of carbon neutrality by achieving zero CO2 emissions by 2040. ➤ Cooperation with other companies concerning sustainability involving the cosmetics business (horizontal recycling of cosmetics containers, upcycling of cosmetics as art supplies and other products) ➤ Opened a Beauty Studio at KidZania Tokyo to show children how cosmetics and beauty care can encompass a diverse range of personal preferences and characteristics

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Page 24 will be a review of FY2022. In the first of our strategy to target China and travel retail for growth, we have expanded our presence on multiple e-commerce platforms in China and entered the duty-free business outside of the Asian region.

In the second area of our strategy to increase brand value, Tarte strengthened its TikTok-based promotions, leading to increased sales. In Japan, a makeup simulator that applies projection mapping was introduced at Maison KOSÉ Ginza, attracting media attention.

In the third, post-COVID structural reforms and new growth strategy, DECORTÉ and ALBION worked on activities to increase younger customers, and Tarte expanded new store openings to the UK and Europe.

In our fourth sustainability strategy, we have newly set our goal on carbon neutrality by 2040, and have initiated a variety of unique initiatives, including collaboration with other companies.

Progress on VISION2026 Numerical Targets

◆ Progress in both sales and profits has been challenging. Meanwhile, overseas sales ratio and e-commerce/travel retail sales ratio remained steady.

Index	VISION2026 Target	FY03/2019 *note	FY12/2022
Net sales	500 billion yen	332.9 billion yen	289.1 billion yen
Operating margin	16%	15.7%	7.7%
ROA (Return On Assets)	18%	18.6%	6.7%
ROE (Return On Equity)	15%	18.8%	7.5%
Overseas sales ratio	50%	27.9%	43.6%
EC/TR sales ratio	25%	13.6%	32.0%

*Highest sales and operating profit in history

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Page 25 shows quantitative targets for the year ending December 31, 2026. Although progress has been slow with respect to sales and operating profit ratio due to the impact of coronavirus, the ratio of overseas sales, EC, and travel-retail sales are on track due to sales growth in China and South Korea and an increase in Tarte sales.

Basic Strategy		Key Initiatives
Three Growth Strategies	Accelerate Global Brand Development	<ul style="list-style-type: none"> • Further increase marketing activities for the growth of flagship global brands through strategic investment • Maximally attract demand from the Chinese people (China mainland and travel retail) • Capture Western markets centered on DECORTÉ and SEKKISEI
	Proactively Develop Unique Products	<ul style="list-style-type: none"> • Increase global competitiveness through the study of state-of-art technologies and unique forms of value • Further evolve product creation through new material development and new manufacturing equipment • Embody Monozukuri2026 (sustainability and adaptability)
	Explore New Growth Domains	<ul style="list-style-type: none"> • Expand genders/generations, and expand value proposition to areas of wellbeing • Expand areas that use digital technology (EC, OMO, counseling) • Produce results from efforts made in the areas of pharmaceutical products at hair salons
Pursuit of Two Values	Use Digital Technology for More and Better Personal Customer Experiences	<ul style="list-style-type: none"> • Improve LTV through customer-focused marketing across brands • Offer cosmetics value in the area of wellbeing • Improve customer service quality by leveraging the benefits of both in-person and online counseling
	Focus on Unique Forms of Value by Utilizing External Resources and Technologies	<ul style="list-style-type: none"> • Leverage external technologies in the “Monozukuri” (manufacturing) area • Create new types of value through open innovation • Collaborate with external resources from a global perspective
Three Bases	Build a Sound Foundation for the Company Growth	<ul style="list-style-type: none"> • Promote Monozukuri BPR and establish a system for sustainable production, including at the South Alps plant • Improve business efficiency by reducing costs, inventories and waste • Promote digital transformation (DX) as a global company • Invest resources in growth areas by improving labor productivity
	Diversity and Inclusion Management Practices	<ul style="list-style-type: none"> • Create an environment where diverse human resources can be utilized and provide employees with job satisfaction • Establish a human resources portfolio and optimize utilization of human resources
	Promote a Sustainability Strategy Across the Entire Value Chain	<ul style="list-style-type: none"> • Promote a unique sustainability strategy for human beings and the Earth • Instill and implement the “KOSÉ Sustainability Plan” • Accelerate initiatives by generating synergies within the Group and collaborating with other companies

Page 26 will be the FY2023 initiative. Examples of specific initiatives are provided on the next page.

- ◆ LIPOSOME Beauty Serum has received 101 Best Cosmetics Awards and LIPOSOME Night Cream has received 74 awards.
- ◆ The LIPOSOME lineup will be expanded in March with the addition of an eye serum.



(Left) The reformulated and updated LIPOSOME ADVANCED REPAIR SERUM, which was launched in September 2021, has received 101 Best Cosmetics Awards (note 1). This product surpassed sales of 1.2 million units (note 2) faster than any other DECORTÉ brand products.

(Right) LIPOSOME ADVANCED REPAIR CREAM, which debuted in September 2022, has already received 74 Best Cosmetics Awards (note 1).

Note 1: Total number of first place or first place equivalent awards in magazines, internet and other media (as of December 2022)

Note 2: Shipments in Japan from September 16, 2021 to January 31, 2023



In China, Europe and North America, the eye care category is the third largest category of the beauty care market (note 3) following beauty serums and beauty care creams. In Japan, this category is expected to continue growing as the use of face masks due to the pandemic is making women pay more attention to eye care.

Note 3: Beaute Research survey

Page 27 is about DECORTÉ. LIPOSOME ADVANCED REPAIR SERUM, which was renewed and launched in September 2021, won 101 Best Cosmetics awards as of last December, and its cumulative sales exceeded 1.2 million units, which is exceptional for an expensive product.

Liposome Advanced Repair Cream, launched in September 2022, also won 74 Best Cosmetics awards, and sales of the Liposome series have been strong.

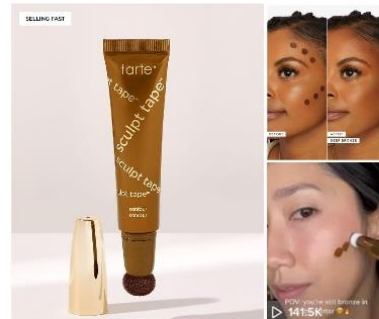
This March, we will launch a new eye serum from the liposome series. The eye care category is a large market in China, Europe, and the US. In Japan, awareness of eye care is increasing due to the wearing of masks, and we will work to further increase awareness of the liposome series globally.

- ◆ Store sales (sell-through) have recovered to almost the pre-corona level. In 2022, tarte rose to third place in the U.S. prestige makeup market, the brand’s highest ever ranking (note 1).
- ◆ Since late 2022, a number of new tarte products have attracted attention on TikTok.



The maracuja juicy lip series launched in November 2022 “maracuja juicy lip & cheek shift,” a product that can be used on the lips and cheeks. The ability to turn pink by reacting with the pH of the skin is a major feature of this new product.

Note 1: *Source: The NPD Group/U.S. Prestige Beauty Total Measured Market, Makeup Dollar Sales, January – December 2022



The shape tape series added the “sculpt tape™ contour,” a bronzer that can be used for contouring (note 2). The cushioned tip makes it easy to apply the bronzer to the cheekbones, forehead and other places.

Note 2: Contouring is a makeup technique that combines highlights and shading. Contrast between light and shaded areas sharpens facial features, creating a greater sense of depth.

Page 28 is about Tarte. Tarte has launched a series of unique new products since the end of last year, which have been the talk of the town on TikTok and other social networking sites. As a result, the brand has recovered to near pre-coronavirus, 2019 levels in terms of store sales, and has steadily increased its brand presence in the market, ranking third in the US prestige makeup market in 2022, up two positions from fifth in 2021.

We will continue to strengthen SNS promotions, which is one of the brand’s strengths, and aim to further expand sales while opening new stores.

- ◆ Global marketing activities will continue in 2023 to increase awareness of SEKKISEI as a genderless brand.
- ◆ A limited time campaign featuring Major League Baseball player Shohei Ohtani for increasing sales of sunscreen products.



As in 2022, advertisements will feature actress Yui Aragaki and figure skater Yuzuru Hanyu. Aiming to increase the number of sunscreen users worldwide.



A limited time marketing campaign featuring Shohei Ohtani is expected to promote SEKKISEI sunscreen products to a wide range of age groups.

Page 29 is about SEKKISEI. Continuing from last year, we will work to increase awareness of the brand as a genderless brand by featuring figure skater Yuzuru Hanyu.

In addition, the sunscreen promotion to be launched in February will feature Major Leaguer Shohei Ohtani to strengthen the approach to a wide range of target customers.

- ◆ In March, the Relax series of the Je l'aime brand will be updated to strengthen this brand's share in the hair care market.
- ◆ Creating a series of products centered on MAKE KEEP MIST EX, which now has cumulative sales of more than 7 million units. MAKE KEEP POWDER, a facial powder that prevents oily skin caused by sebum, will be launched in March.



The new Je l'aime Relax nighttime hair care products help prevent hair from becoming wavy while sleeping, resulting in easy-to-manage hair in the morning. With in-bath and out-bath products, this product is aimed at stimulating a recovery in hair care category sales.



MAKE KEEP POWDER incorporates a powder developed by KOSÉ that suppresses skin sebum and protects makeup from face mask abrasion. Using this new powder with MAKE KEEP MIST EX allows creating a coating of makeup that is more resistant to face mask rubbing.

Page 30 is about cosmetaries. KOSÉ Cosmeport will launch a renewed the Je l'aime Relax in March, aiming for a recovery in sales in the struggling hair category.

We will also launch a new MAKE KEEP POWDER from the MAKE KEEP MIST EX series, which has sold a total of over 7 million units since its launch in 2019. Two types of newly developed functional powders are blended to prevent makeup deformation caused by sebum shine and rubbing against the mask.

Through these new products, we aim to attract new customers and expand our market share in each category.

- ◆ In October 2021, Aman Spas in London, Shanghai, Japan and other countries started using AQ MELIORITY, one of DECORTÉ's most prestigious skin care product lines, for facial and body treatments.
- ◆ In January 2023, KOSÉ started supplying products to Aman Spas on an OEM basis, a step that is expected to strengthen KOSÉ's position in the global beauty care market.



After more than two years of working together, KOSÉ and Aman developed five AMAN ESSENTIAL SKIN products that cover a broad range of skin characteristics.



The sale of AMAN ESSENTIAL SKIN products started on January 11, 2023 in 20 countries, including Japan. These products are also used for spa treatments at Aman Tokyo and other Aman Spa locations worldwide.

Page 31 is about the collaboration with Aman. Aman's relationship with the Company began in October 2021 with the launch of facial and body treatments using items from DECORTÉ's premier skincare line, AQ MELIORITY, at Aman spas in London, Shanghai, Tokyo, and elsewhere.

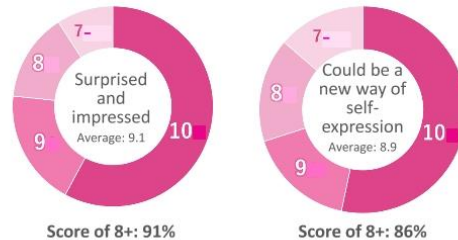
After more than two years of cooperation with Aman, we have now developed Aman Essential Skin, a formulation suitable for all skin types and needs, and have reached the OEM contract agreement. We will continue to further evolve our partnership with Aman and enhance KOSÉ's global presence.

- ◆ KOSÉ exhibited the MIXED REALITY MAKEUP at the CES in Las Vegas, the world's largest consumer electronics trade show. Currently in use at Maison KOSÉ Ginza, this machine is a makeup simulator that utilizes high-speed projection mapping technology.



Introduction movie of MIXED REALITY MAKEUP: <https://youtu.be/Crwid0YXw5M>

At the KOSÉ's booth, visitors could instantly try a variety of makeup by using a makeup simulator that employs high-speed projection mapping technology.



Survey of visitors who used the COLOR MACHINE at CES2023 (January 5-8, 2023, N=197, score of 1-10)

More than 1,200 people visited the KOSÉ booth during the four-day CES. Many people were very surprised to see the makeup projected on their faces and recognized this as a potential means of entertainment too. There are also many possible applications outside the cosmetics industry.

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Page 32 is about the CES exhibit. In January 2023, we became the first major Japanese cosmetics manufacturer to exhibit at CES, one of the world's largest technology trade fairs held in the United States.

At the booth, a makeup simulation using high-speed projection mapping technology, MIXED REALITY MAKEUP, was presented. This makeup simulation service has already been available at Maison KOSÉ Ginza since last August and is very popular among customers.

Our booth welcomed a total of more than 1,200 visitors, and as indicated in the survey, we received many surprised and impressed comments from those who experienced our device. The entertainment aspect is also attracting attention and is expected to be applied to other business areas in the future.

- ◆ A business unit reorganization strengthens the ability to approach customers, aiming at responding customer needs.
- ◆ KOSÉ's new Clean Brand Office, established in 2023, will target opportunities created by the growth of the market for clean beauty products.



Page 33 discusses the reorganization of business units. In order to move away from the traditional business division structure by distribution channel and to strengthen brand nurturing from the customer's perspective, we have reorganized our Brand Business Division from this fiscal year. In recent years, more and more customers are buying cosmetics regardless of channel or price range. Given this diversification in customer purchasing behavior, we hope to strengthen our approach to customers beyond the boundaries of distribution channels in each brand through this reorganization of business units.

In addition, by making the DECORTÉ Division, which has grown in sales size, independent, we will strengthen it so that DECORTÉ can establish a presence as a prestige brand.

In addition, a new Clean Brand Office has been established to oversee the three brands of SEKKISEI, Prédia, and Spawake, which is being developed in India to address the ever-expanding clean beauty market.

- ◆ Promoting strategies suitable for individual companies in each distribution channel; reexamining the number of stores to increase sales per store
- ◆ Improving efficiency at the planning and production stages for higher profitability, and continuing to strengthen new business initiatives

Strategies for distribution channels	Reorganize the sales framework
<ul style="list-style-type: none"> ➤ Increase investments in flagship stores of department stores and specialty cosmetics stores. ➤ For drug stores, use a different sales strategy for each drug store company. ➤ Increase EC sales in Japan of prestige and cosmetaries products. 	<ul style="list-style-type: none"> ➤ Reexamine standards for beauty consultant assignments. ➤ Encourage beauty consultants to select a career path at KOSÉ, such as by transferring to the head office. ➤ Reexamine the number of beauty consultants and salespeople.
Planning and manufacturing	DX and collaborations with other companies
<ul style="list-style-type: none"> ➤ Use joint planning and product development to enhance synergies among KOSÉ Group companies. ➤ Lower the cost of sales ratio by using joint raw material procurement, etc. among KOSÉ Group companies. ➤ Reexamine the number of brands and SKUs. 	<ul style="list-style-type: none"> ➤ Activities to increase the number of KOSÉ ID registrations at customers ➤ Use innovative digital technologies at Maison KOSÉ Ginza to enable customers to experience new types of beauty care. ➤ Use joint activities with other companies, such as Milbon and Maruho.

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Page 34 is about structural reforms. For strategies in each distribution channel, we will strengthen investments in flagship stores, review the number of stores, and focus on strategies suitable for individual companies. With regard to the sales structure, we will review the number of beauty consultants and sales personnel, and with regard to planning and manufacturing, we will cooperate with KOSÉ Cosmeport and ALBION to realize synergies within the Group.

In addition, we will continue to promote the registration of KOSÉ IDs and collaborate with other companies such as Milbon and Maruho.

- ◆ In February, mimosa flower design nail collar was sold by DECORTÉ for a limited time to celebrate International Women’s Day.
- ◆ As one step to support the well-being of the people of KOSÉ, the KoCo Being internal information platform has been established. KoCo Being will be a source of information for improving the health and happiness of everyone at KOSÉ.



DECORTÉ has started sales for a limited time of nail collars with a mimosa flower design to celebrate International Women’s Day, which is March 8. Part of the sales of these products will be donated for supporting women engaged in traditional Japanese crafts and training people to become the next generation of these craftspeople.



KoCo Being is accessible to everyone at KOSÉ as a source of information involving wellbeing for everything from major life events to staying healthy as well as career advancement at KOSÉ, including notices of seminars and other events.

Page 35 is about promoting sustainability strategies. As a company that creates beauty, we want to share our wisdom related to beauty and use it for the benefit of people and the earth, and we have adopted the corporate message, "Creating Beauty in a Sustainable World".

As a recent example of our commitment to people, in February, DECORTÉ launched a limited-edition nail color featuring the mimosa, the symbol of March 8, International Women’s Day. A portion of the proceeds will be used to support women working in the field of traditional Japanese crafts and the development of the next generation of traditional craftspeople.

In addition, KoCo Being, an information platform for internal use, was launched in January to support employee wellbeing.

- ◆ Increasing the use of environmentally responsible container materials for bottle containers for some brand products.
- ◆ KOSÉ’s Sayama Factory in Saitama prefecture uses energy from renewable sources. More activities are planned to lower CO2 emissions.

Products to begin using chemical recycled PET bottles

商品名 プレディア オイルドロップ	プレディア ハイトルスピリッツ アドバンスド	プレディア ホワイトV 【医薬部外品】	プレディア スバ・エ・メール G セラム	聖肌糖 クリアウルネス ジェントル ワッシュ
容量 50mL	30mL	30mL	40mL	160mL

Bottles used for some Prédia and SEKKISEI skin care products are made of chemical recycled PET (note 1). Producing this material results in lower CO2 emissions than the production of PET used in conventional containers does (note 2).

Note 1: Chemical recycled PET is not a material obtained by reusing plastic bottles for cosmetics.
 Note 2: Comparison of CO2 emissions per ton of resin produced for petroleum-derived PET and chemical recycled PET.

The KOSÉ Sayama Factory



The Gunma Factory already uses electricity from renewable sources and the Sayama Factory in Saitama prefecture has also started using this electricity.

Page 36 is about our commitment to the earth. As part of a joint effort with Kao Corporation, we have begun using chemically recycled PET material for the bottle containers of some of our skincare brands, Predia and SEKKISEI.

Following the Gunma Plant, the Sayama Factory in Saitama Prefecture stopped the usage of electric power and started using renewable energy power in February 2023.

Through these efforts, we will strive to reduce CO2 emissions.

- ◆ Major League Baseball player Shohei Ohtani and figure skater Yuzuru Hanyu are featured in advertisements for more diversity involving the Three G's in KOSÉ's customer base.



Lastly, the three G's that I explained at the beginning of this presentation. As part of three G's initiatives, in addition to Yuzuru Hanyu, we have signed a new global advertising contract with Shohei Ohtani starting in FY2023.

The Company will reach out to a wider range of customers by appointing Ohtani, who is a world-class athlete and is popular among people of all genders and ages.

That is all from me. Thank you very much.

Document Notes

1. *This document has been translated by SCRIPTS Asia.*

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