

## **KOSÉ Corporation**

President & CEO: Kazutoshi Kobayashi

Stock exchange listing: Tokyo Stock Exchange, Prime Market; Stock code: 4922

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### **(Updated)**

## **Announcement of Partial Corrections to Summary of Financial Results for the Fiscal Year Ended December 31, 2022 [Japanese GAAP]**

KOSÉ Corporation has made the following partial corrections to Summary of Financial Results for the Fiscal Year Ended December 31, 2022 [Japanese GAAP] announced on February 13, 2023 at 3 p.m. In addition, the revised numerical data is provided to reflect these corrections.

### 1. Reason for corrections

KOSÉ has made corrections to the information disclosed on February 13, 2023, as we have found that there are matters that need to be corrected after the disclosure.

The main corrections are as follows.

- Consolidated Balance Sheet  
Current liabilities: Electronically recorded obligations-operating and other
- Consolidated Statement of Cash Flows  
Cash flows from operating activities: Increase (decrease) in trade payables  
Cash flows from investing activities: Purchase of property, plant and equipment
- (Reference) Non-consolidated financial results, (2) Non-consolidated financial position  
Total assets and equity ratio

### 2. Detail of corrections

Because there is a wide range of corrections, the full text of the corrected financial results is attached, and the corrected sections are underlined.

## Summary of Financial Results for the Fiscal Year Ended December 31, 2022

[Japanese GAAP]

Company name: **KOSÉ Corporation** Stock listing: Tokyo Stock Exchange, Prime Market  
 Stock code: 4922 URL: <https://corp.kose.co.jp/>  
 President & CEO: Kazutoshi Kobayashi  
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 Scheduled date of general meeting of shareholders: March 30, 2023  
 Scheduled date of filing of Securities Report: March 30, 2023  
 Scheduled date of dividend payment: March 31, 2023  
 Preparation of supplementary materials for financial results: Yes  
 Holding of financial results meeting: Yes (for analysts)

(Rounded down to million yen)

### 1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2022

(January 1, 2022 – December 31, 2022)

(1) Consolidated financial results (YoY change % represents changes from the previous fiscal year)

	Net sales (Million yen)	YoY change (%)	Operating profit (Million yen)	YoY change (%)	Ordinary profit (Million yen)	YoY change (%)	Profit attributable to owners of parent (Million yen)	YoY change (%)
2022	289,136	-	22,120	-	28,394	-	18,771	-
FY12/2021	224,983	-	18,852	-	22,371	-	13,341	-

Note: Comprehensive income (million yen) 2022: 28,866 (-%) FY12/2021: 20,234 (-%)

	Net income per share (basic) (Yen)	Net income per share (diluted) (Yen)	Return on equity (%)	Ordinary profit to total assets (%)	Operating profit to net sales (%)
2022	329.03	-	7.5	8.4	7.7
FY12/2021	233.86	-	5.8	7.1	8.4

Ref.: Equity in earnings of affiliates (million yen) 2022: - FY12/2021: -

Note: The consolidated financial statements for FY12/2021 include results of operations of KOSÉ and its consolidated subsidiaries in Japan that had a March 31 fiscal year end for the period from April 1, 2021 to December 31, 2021, and of consolidated subsidiaries that had a December 31 fiscal year end for the period from January 1, 2021 to December 31, 2021. As a result, no prior-year comparisons are shown.

#### Reference

The percentages below (adjusted comparisons) are comparisons with the same period of the previous fiscal year (January 1, 2021 to December 31, 2021) which corresponds to the fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022).

Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
(Million yen) (%)	(Million yen) (%)	(Million yen) (%)	(Million yen) (%)
268,992 7.5	15,672 41.1	22,050 28.8	11,135 68.6

(2) Consolidated financial position

	Total assets (Million yen)	Net assets (Million yen)	Equity ratio (%)	Net assets per share (Yen)
2022	359,600	275,349	72.0	4,539.45
FY12/2021	320,018	254,267	74.5	4,178.06

Ref.: Shareholders' equity (million yen) 2022: 258,992 FY12/2021: 238,357

(3) Consolidated cash flow position

	Net cash provided by (used in)			Cash and cash equivalents at end of period (Million yen)
	Operating activities (Million yen)	Investing activities (Million yen)	Financing activities (Million yen)	
2022	20,261	(6,311)	(7,313)	94,063
FY12/2021	17,799	(4,722)	(14,303)	81,876

### 2. Dividends

	Dividend per share					Total dividends (Million yen)	Payout ratio (consolidated) (%)	Dividend on net assets (consolidated) (%)
	1Q-end (Yen)	2Q-end (Yen)	3Q-end (Yen)	Year-end (Yen)	Total (Yen)			
FY12/2021	-	60.00	-	60.00	120.00	6,845	51.3	3.0
2022	-	70.00	-	70.00	140.00	7,987	42.5	3.2
2023 (forecast)	-	70.00	-	70.00	140.00		60.1	

### 3. Consolidated Forecast for 2023 (January 1, 2023 – December 31, 2023)

(YoY change % represents changes from the previous fiscal year)

	Net sales (Million yen)	YoY change (%)	Operating profit (Million yen)	YoY change (%)	Ordinary profit (Million yen)	YoY change (%)	Profit attributable to owners of parent (Million yen)	YoY change (%)	Net income per share (Yen)
Full year	305,000	5.5	21,000	(5.1)	20,300	(28.5)	13,300	(29.1)	233.11

#### \* Notes

(1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): None

Newly added: -

Excluded: -

(2) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others : None

2) Changes in accounting policies other than 1) above : None

3) Changes in accounting-based estimates : None

4) Restatements : None

(3) Number of shares outstanding (common stock)

1) Number of shares outstanding (incl. treasury shares) at end of the period

As of December 31, 2022 60,592,541 shares As of December 31, 2021 60,592,541 shares

2) Number of treasury shares at end of the period

As of December 31, 2022 3,538,707 shares As of December 31, 2021 3,542,672 shares

3) Average number of shares outstanding during the period

2022 57,052,535 shares FY12/2021 57,048,912 shares

#### (Reference) Non-consolidated financial results

##### Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2022

(January 1, 2022 – December 31, 2022)

(1) Non-consolidated financial results

(YoY change % represents changes from the previous fiscal year)

	Net sales (Million yen)	YoY change (%)	Operating profit (Million yen)	YoY change (%)	Ordinary profit (Million yen)	YoY change (%)	Net income (Million yen)	YoY change (%)
2022	115,402	-	6,426	-	21,433	-	17,324	-
FY12/2021	85,853	-	8,789	-	18,923	-	14,656	-

	Net income per share (basic) (Yen)	Net income per share (diluted) (Yen)
2022	303.67	-
FY12/2021	256.90	-

Note: Due to the change of the previous fiscal year end, the transitional fiscal period is a nine-month period from April 1, 2021 to December 31, 2021. As a result, no prior-year comparisons are shown.

(2) Non-consolidated financial position

	Total assets (Million yen)	Net assets (Million yen)	Equity ratio (%)	Net assets per share (Yen)
2022	201,290	163,459	81.2	2,865.01
FY12/2021	186,374	152,610	81.9	2,675.03

Ref.: Shareholders' equity (million yen) 2022: 163,459 FY12/2021: 152,610

Note 1: The current financial report is not subject to audit by certified public accountants or auditing firms.

Note 2: Cautionary statement with respect to forward-looking statements

These materials contain forward-looking statements and statements of this nature based on assumptions judged to be valid and information available to KOSÉ as of the announcement date of the summary. These statements are not promises by KOSÉ regarding future performance. As such, actual results may differ significantly from these projections resulting from changes in the economic environment and other risks and uncertainties. For discussion of the assumptions and other factors considered by KOSÉ in preparing the above projections, please refer to the section "1. Analysis of Results of Operations and Financial Position, (1) Analysis of Results of Operations" on page 4 of the attachments.

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## 1. Analysis of Results of Operations and Financial Position

### (1) Analysis of Results of Operations

#### 1) Financial Results for the Current Fiscal Year

##### a. Review of Operations

Millions of yen, %

Operating segment	FY12/2021		2021 (Adjusted)		2022		YoY change (Adjusted comparisons)	
	Amount	% comp.	Amount	% comp.	Amount	% comp.	Amount	%
Cosmetics	189,082	84.0	217,742	80.9	234,969	81.3	17,226	7.9
Cosmetaries	34,351	15.3	49,185	18.3	52,234	18.1	3,048	6.2
Others	1,549	0.7	2,064	0.8	1,933	0.7	(130)	(6.3)
Total net sales	224,983	100.0	268,992	100.0	289,136	100.0	20,144	7.5

	FY12/2021		2021 (Adjusted)		2022		YoY change (Adjusted comparisons)	
	Amount	% of sales	Amount	% of sales	Amount	% of sales	Amount	%
Operating profit	18,852	8.4	15,672	5.8	22,120	7.7	6,448	41.1
Ordinary profit	22,371	9.9	22,050	8.2	28,394	9.8	6,343	28.8
Profit attributable to owners of parent	13,341	5.9	11,135	4.1	18,771	6.5	7,637	68.6

Note: The YoY changes in the adjusted column are comparisons with the same period of 2021 (January 1, 2021 – December 31, 2021) after retroactively applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) to the financial statements.

In 2022 (January 1, 2022 to December 31, 2022), the Japanese economy began to recover gradually as economic and social activity started returning to normal while the country advanced to a stage of living with COVID-19.

Overseas, the primary markets for the KOSÉ Group are Asia and the United States. Operations in China were affected by lockdowns caused by the spread of the COVID-19 pandemic and subsequent restrictions on people's movement associated with the zero-COVID policy. Although this policy was significantly eased in December 2022, economic activity slowed down considerably due to the rapid spread of the pandemic. Economies recovered steadily in other Asian countries in 2022. In the United States, although the economy slowed down from the previous year because of rapidly rising prices and interest rates, solid employment environment supported consumer spending.

In the Japanese cosmetics market, sales continued to recover along with the resumption of normal consumer activity as pandemic restrictions are eased.

In China, demand in the mainland and the travel retail sector, primarily Hainan Island, is beginning to recover following the end of lockdowns. A recovery of cosmetics markets is taking place in other regions of Asia. The U.S. cosmetics market has been growing steadily along with solid consumer spending.

The KOSÉ Group continued to make progress with activities based on the VISION2026 medium to long-term vision that has the goal of becoming a company with a global presence. In 2022, these activities advanced to Phase II: Increase KOSÉ's global presence and improve the customer experience. In accordance with basic strategies for accomplishing this vision, the KOSÉ Group is concentrating on the growth of business activities on a global scale, expansion to cover more business domains and customer segments, more and better use of digital communications, and the establishment of a management framework capable of supporting growth.

In 2022, although sales in China were affected by the continuation of lockdowns and there was a decline in sales in South Korea, sales were driven by the high prestige brand products sold at department stores and specialty cosmetics stores in Japan, and Tarte, which sells products mainly in the United States and Europe. Sales

increased 7.5% (based on prior-year results of operations adjusted for consistency with the new revenue recognition standard, same hereafter) to 289,136 million yen (up 2.7% after excluding the effects of changes in foreign exchange rates). Overseas sales were 43.6% of total sales.

Operating profit was 22,120 million yen, 41.1% higher than in 2021. Earnings increased because of the benefit of a lower cost of sales ratio and better control of SG&A costs, in addition to higher sales. Ordinary profit increased 28.8% to 28,394 million yen due to a significant increase in foreign exchange gains. Profit attributable to owners of parent increased 68.6% to 18,771 million yen.

## b. Results by Business Segment

### Cosmetics Business

Millions of yen, %

	FY12/2021	2021 (Adjusted)	2022	YoY change (Adjusted comparisons)	
				Amount	%
Sales to third parties	189,082	217,742	234,969	17,226	7.9
Intragroup sales and transfers	-	-	-	-	-
Total net sales	189,082	217,742	234,969	17,226	7.9
Operating profit	22,724	19,772	25,407	5,635	28.5
Operating margin	12.0	9.1	10.8	-	-

In the cosmetics business, sales in the high prestige category remained strong for DECORTÉ and ALBION products in Japan, but sales were sluggish in China, except the travel retail sector, and South Korea. Sales of JILL STUART and ADDICTION products increased along with the recovering demand in the makeup market in Japan. At Tarte, sales of major products and new products were both higher in the United States and Europe due to successful promotion on SNS. Sales of SEKKISEI, one of KOSÉ's major prestige brands is recovering from the second half of 2022. As a result, sales in the cosmetics business increased 7.9% from 2021 to 234,969 million yen and operating profit was up 28.5% to 25,407 million yen.

### Cosmetaries Business

Millions of yen, %

	FY12/2021	2021 (Adjusted)	2022	YoY change (Adjusted comparisons)	
				Amount	%
Sales to third parties	34,351	49,185	52,234	3,048	6.2
Intragroup sales and transfers	-	-	-	-	-
Total net sales	34,351	49,185	52,234	3,048	6.2
Operating profit (loss)	(752)	390	1,101	710	182.0
Operating margin	-	0.8	2.1	-	-

In the cosmetaries business, sales of BIOLISS, haircare brand of KOSÉ Cosmeport Corp., were sluggish. On the contrary, sales of CLEAR TURN of KOSÉ Cosmeport Corp, makeup brand VISÉE, haircare brand STEPHEN KNOLL NEW YORK increased. As a result, sales in the cosmetaries business increased 6.2% from 2021 to 52,234 million yen and operating profit was up 182.0% to 1,101 million yen.

### Others

Millions of yen, %

	FY12/2021	2021 (Adjusted)	2022	YoY change (Adjusted comparisons)	
				Amount	%
Sales to third parties	1,549	2,064	1,933	(130)	(6.3)
Intragroup sales and transfers	318	67	675	607	899.4
Total net sales	1,867	2,132	2,609	477	22.4
Operating profit	808	779	1,067	287	36.9
Operating margin	43.3	36.6	40.9	-	-

Sales of amenity products to hotels and golf clubs decreased and orders were down for the manufacture of OEM products. As a result, sales in the “others” business segment decreased 6.3% from 2021 to 1,933 million yen. Operating profit increased 36.9% to 1,067 million yen because of a decline in the cost of sales.

### c. Net Sales by Region (Sales to Third Parties)

	<i>Millions of yen, %</i>							
	FY12/2021		2021 (Adjusted)		2022		YoY change (Adjusted comparisons)	
	Amount	%	Amount	%	Amount	%	Amount	%
Japan	114,078	50.7	151,957	56.5	163,037	56.4	11,079	7.3
Asia	74,361	33.1	80,398	29.9	80,789	27.9	391	0.5
North America	32,720	14.5	32,721	12.2	40,141	13.9	7,419	22.7
Others	3,823	1.7	3,914	1.5	5,168	1.8	1,254	32.0
Total net sales	224,983	100.0	268,992	100.0	289,136	100.0	20,144	7.5

#### Japan

Sales of high prestige brand products at department stores and specialty cosmetics stores remained strong. At drug stores and other mass retail channels, while major prestige skincare brands struggled, we increased our share of the sensitive skin market and the performance of makeup brands recovered. As a result, sales in Japan increased 7.3% to 163,037 million yen.

#### Asia

Initially, sales in mainland China were sluggish due to prolonged restrictions on economic activity but picked up marginally as the yen’s depreciation. Lockdowns in the first half negatively affected travel retail sales in China but turned favorable as lockdowns were lifted on Hainan Island. Sales continued to decline in South Korea’s travel retail sector because of travel restrictions from China and the dollar’s strength vs. the won. As a result, sales in Asia increased 0.5% to 80,789 million yen.

#### North America/Others

In North America, Tarte maintained its large share of the prestige makeup market by strengthening its lineup of products in the concealer, mascara and other key categories and increasing sales by launching new products. The increasing number of Tarte stores and the impact of the ongoing yen’s depreciation also contributed to the growth of sales. As a result, sales in North America increased 22.7% to 40,141 million yen.

Sales in the “others” region (including Europe) increased 32.0% to 5,168 million yen driven by strong sales of Tarte.

### 2) Outlook for 2023

Central bank interest rate hikes to combat inflation and the prolonged conflict in Ukraine will probably weigh on the global economy during 2023.

In Japan, the economic recovery backed by the resumption of economic activities following the end of most pandemic restrictions is expected to continue. However, slowing economic growth rates in overseas countries may hold down the growth of Japan’s economy.

In China, a full-scale recovery in the demand for cosmetics is expected as consumer spending rebounds due to the end of zero-COVID policy. In South Korea, sales at duty-free sales are expected to remain low because of intense competition with China. In the United States, the economic growth is expected to slow down because of high inflation and high interest rates.

KOSÉ forecasts a year-on-year increase of 5.5% in net sales from the previous fiscal year to 305,000 million yen for the next fiscal year. The forecast assumes that the Japanese and Chinese economies will recover after

the COVID-19 pandemic restrictions are lifted, but the yen's depreciation in 2022 and an economic slowdown in the United States will impact results in 2023.

Operating profit is likely to decrease 5.1% from the previous fiscal year to 21,000 million yen due to aggressive investment in marketing and rebound of the yen's depreciation from the previous year. Ordinary profit and profit attributable to owners of parent are forecast to decrease 28.5% to 20,300 million yen and 29.1% to 13,300 million yen as effects of exchange rate fluctuations are neutral. The capital expenditure forecast is 21,800 million yen and the depreciation expense forecast is 10,800 million yen.

\* Forecasts are based on foreign exchange rates of 130.0 yen to the U.S. dollar, 19.5 yen to the Chinese yuan and 0.102 yen to Korean won.

*Millions of yen, %*

Operating segment	2022		2023		Comparisons	
	Amount		Amount		Amount	%
Cosmetics	234,969		249,800		14,830	6.3
Cosmetaries	52,234		53,200		965	1.8
Others	1,933		2,000		66	3.4
Total net sales	289,136		305,000		15,863	5.5

	2022		2023		Comparisons	
	Amount	% of sales	Amount	% of sales	Amount	%
Operating profit	22,120	7.7	21,000	6.9	(1,120)	(5.1)
Ordinary profit	28,394	9.8	20,300	6.7	(8,094)	(28.5)
Profit attributable to owners of parent	18,771	6.5	13,300	4.4	(5,471)	(29.1)

## (2) Analysis of Financial Position

### 1) Balance Sheet Position

The current ratio was 361.8%, 5.7 percentage points lower than one year earlier, and the quick ratio was 250.1%, a decrease of 2.7 percentage points, as of December 31, 2022. These changes were attributable mainly to the following items.

Assets increased 39,581 million yen mainly the result of increases of 11,253 million yen in cash and deposits, 8,240 million yen in notes and accounts receivable-trade, 2,791 million yen in merchandise and finished goods, 1,999 million yen in raw materials and supplies, 7,596 million yen in leased assets, 2,444 million yen in investment securities, and 4,826 million yen in retirement benefit asset, and decreases of 1,775 million yen in building and structures, 1,218 million yen in machinery, equipment and vehicles and 894 million yen in tools, furniture and fixtures.

Liabilities increased 18,499 million yen mainly due to increases of 2,055 million yen in electronically recorded obligations-operating, 2,416 million yen in accounts payable-other, 1,319 million yen in income taxes payable, 596 million yen in accrued expenses, 761 million yen in short-term borrowings and 3,041 million yen in deferred tax liabilities.

Interest-bearing debt amounted to 10,178 million yen, and the debt-to-equity ratio was 0.04.



**2) Cash Flows***Millions of yen*

	FY12/2021 (Apr. 1, 2021 – Dec. 31, 2021)	2022 (Jan. 1, 2022 – Dec. 31, 2022)	YoY change
Net cash provided by (used in) operating activities	17,799	<u>20,261</u>	-
Net cash provided by (used in) investing activities	(4,722)	<u>(6,311)</u>	-
Net cash provided by (used in) financing activities	(14,303)	(7,313)	-
Increase in cash and cash equivalents	1,825	12,187	-
Cash and cash equivalents at end of period	81,876	94,063	12,187

Note: Due to the change of the fiscal year end in FY12/2021, the transitional fiscal period is a nine-month period from April 1, 2021 to December 31, 2021. As a result, no YoY changes are shown for net cash provided by (used in) operating activities, net cash provided by (used in) investing activities, net cash provided by (used in) financing activities and increase in cash and cash equivalents.

Cash and cash equivalents (consolidated basis) as of December 31, 2022 were 94,063 million yen, an increase of 12,187 million yen compared with December 31, 2021. Cash flows and major components during the current transitional fiscal period are as follows.

Net cash provided by operating activities totaled 20,261 million yen. This was mainly the net result of profit before income taxes of 27,867 million yen, depreciation, a non-cash expense, of 9,743 million yen, an increase of 3,008 million yen in inventories, an increase of 7,444 million yen in trade receivables, an increase of 3,757 million yen in retirement benefit asset, a decrease of 1,700 million yen in other assets, an increase of 2,082 million yen in trade payables, and income taxes paid of 5,646 million yen.

Net cash used in investing activities totaled 6,311 million yen. The major components were the purchase of property, plant and equipment of 4,250 million yen, purchase of intangible assets of 2,852 million yen and proceeds of 1,662 million yen from withdrawal of time deposits.

Net cash used in financing activities totaled 7,313 million yen. The major components include cash dividends paid of 7,416 million yen.

**3) Cash Flow Indicators**

	FY03/2019 (12 months)	FY03/2020 (12 months)	FY03/2021 (12 months)	FY12/2021 (9 months)	2022 (12 months)
Shareholders' equity ratio (%)	69.6	72.5	73.1	74.5	72.080.9
Shareholders' equity ratio based on market prices (%)	386.4	246.4	289.7	232.6	228.8253.5
Interest-bearing debt to cash flow ratio	0.1	0.0	0.4	0.1	0.5
Interest coverage ratio	23,555.3	3,942.6	1,891.8	2,385.1	<u>382.7</u>

Notes:

Shareholders' equity ratio: Shareholders' equity / Total assets

Shareholders' equity ratio based on market prices: Market capitalization / Total assets

Interest-bearing debt to cash flow ratio: Interest-bearing debt / Cash flows

Interest coverage ratio: Cash flows (before deducting interests and income taxes) / Interest payments

- These indicators are calculated on a consolidated basis.

- Market capitalization is based on the number of shares issued less treasury shares.

The closing price of stock on the balance sheet date is adjusted in case KOSÉ conducts a stock split for shareholders of record at the fiscal year end.

- Cash flows are calculated using the figures for operating cash flows on the consolidated statement of cash flows.

- Interest-bearing debt includes all liabilities on the consolidated balance sheet that incur interest. Interest expenses paid on the consolidated statement of cash flows is used for interest payments.

### **(3) Profit Allocation Policy and Dividends for 2022 and 2023**

Preserving a stable dividend is the fundamental policy for profit allocations. KOSÉ plans to return earnings to shareholders while taking into account the need to retain earnings to fund future growth as well as the company's current financial soundness, operating results and the dividend payout ratio.

KOSÉ expects to meet the beginning-of-year target for profit attributable to owners of parent and plans to pay a year-end dividend of 70 yen per share. Shareholders received an interim dividend of 70 yen per share on September 9, 2022. This will result in a dividend of 140 yen per share applicable to the current fiscal year (ended December 31, 2022).

In the next fiscal year (ending December 31, 2023), KOSÉ plans to pay an annual dividend of 140 yen per share, although profit attributable to owners of parent is likely to be lower.

## 2. Management Policies

### (1) Fundamental Management Policy

Since starting operations in 1946, KOSÉ has been dedicated to the mission of using beauty to help people achieve their dreams and other goals. When KOSÉ established a corporate identity in 1991, this mission was expressed as a statement of the company's philosophy for business operations: Create a culture and values embodying a distinctive beauty through a sophisticated fusion of sensuousness and intelligence. KOSÉ has grown year after year since then by adhering to this philosophy. In addition, KOSÉ established a corporate message: Creating beauty in a sustainable world. This message expresses the strong commitment to functioning as a "beauty creation company" in order to utilize a broad array of knowledge involving beauty in order to provide benefits for people and the world.

### (2) Performance Indicators

The Group is placing priority on improving the operating margin, return on total assets (ROA) and return on equity (ROE).

Note:  $ROA = (\text{Operating profit} + \text{Interest and dividends}) / \text{Total assets (average at beginning and end of year)} \times 100$

$ROE = \text{Profit attributable to owners of parent} / \text{Shareholders' equity (average at beginning and end of year)} \times 100$

### (3) Medium- and Long-Term Strategies and Important Issues

The KOSÉ Group is enacting VISION2026 for the purpose of providing guidelines for advancing to the next stage of growth as KOSÉ looks ahead to the 80th anniversary of its founding in 2026.

#### **The KOSÉ Group's vision: Become a company with a global presence exceptional customer loyalty**

KOSÉ pursues the goal of "beauty for everyone" as a leading Japanese cosmetics company that creates a distinctive Japanese-style culture of cosmetics. To maintain a one-of-a-kind identity, activities are centered on many original and appealing brands for the constant creation of distinctive value ahead of other companies worldwide. The goal is to be an admired and irreplaceable company that as many stakeholders as possible will choose over others.

#### The KOSÉ Group VISION2026

##### ✓ Numerical Targets

- Net sales: 500 billion yen
- Operating margin: 16% or more
- ROA: 18% or more
- ROE: 15% or more

##### ✓ Road Map

- Phase I: Upgrade global brands and reinforce customer points of contact
- Phase II: Increase KOSÉ's global presence and improve the customer experience
- Phase III: Become a customer-driven company appreciated by people worldwide

##### ✓ Basic strategies

- 1) Three growth strategies
  - (a) Accelerate global brand development
  - (b) Proactively develop unique products
  - (c) Explore new growth domains

2) Two value creation vectors

- (a) Use digital technology for more and better personal customer experiences
- (b) Focus on unique forms of value by utilizing external resources and technologies

3) Three business foundations

- (a) Build a sound foundation for the company growth
- (b) Promote diversity and inclusion
- (c) Develop a sustainability strategy spanning the entire value chain

**3. Basic Approach for the Selection of Accounting Standards**

The KOSÉ Group is continuing studies for the future adoption of International Financial Reporting Standards (IFRS) with objectives that include improved international comparability of financial data in capital markets and higher creditworthiness overseas. This is in line with its medium- and long-term strategies and factors in domestic and international circumstances in achieving the aim of becoming a company with a global presence.

## 4. Consolidated Financial Statements and Notes

## (1) Consolidated Balance Sheet

Millions of yen

	FY12/2021 (As of Dec. 31, 2021)	2022 (As of Dec. 31, 2022)
<b>Assets</b>		
Current assets		
Cash and deposits	105,281	116,535
Notes and accounts receivable-trade	44,211	52,451
Merchandise and finished goods	34,374	37,165
Work in process	2,310	2,853
Raw materials and supplies	27,059	29,058
Other	4,243	7,080
Allowance for doubtful accounts	(156)	(664)
Total current assets	217,324	244,481
Non-current assets		
Property, plant and equipment		
Buildings and structures	52,620	52,458
Accumulated depreciation	(24,429)	(26,042)
Buildings and structures, net	28,191	26,415
Machinery, equipment and vehicles	21,902	22,161
Accumulated depreciation	(15,749)	(17,226)
Machinery, equipment and vehicles, net	6,152	4,934
Tools, furniture and fixtures	45,211	45,920
Accumulated depreciation	(38,062)	(39,666)
Tools, furniture and fixtures, net	7,148	6,254
Land	17,393	17,363
Leased assets	2,235	10,431
Accumulated depreciation	(1,699)	(2,299)
Leased assets, net	535	8,132
Construction in progress	132	824
Total property, plant and equipment	59,554	63,923
Intangible assets		
Software	4,293	4,619
Goodwill	4,615	4,356
Other	5,357	5,474
Total intangible assets	14,266	14,450
Investments and other assets		
Investment securities	15,534	17,979
Retirement benefit asset	5,470	10,296
Deferred tax assets	3,863	4,524
Other	4,515	4,560
Allowance for doubtful accounts	(509)	(616)
Total investments and other assets	28,874	36,745
Total non-current assets	102,694	115,119
Total assets	320,018	359,600

Millions of yen

	FY12/2021 (As of Dec. 31, 2021)	2022 (As of Dec. 31, 2022)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable-trade	7,450	7,913
Electronically recorded obligations-operating	16,327	<u>18,383</u>
Short-term borrowings	600	1,361
Lease obligations	177	828
Accounts payable-other	13,455	15,872
Accrued expenses	10,323	10,919
Income taxes payable	1,968	3,287
Accrued consumption taxes	1,022	1,476
Refund liabilities	5,077	5,533
Other	2,734	<u>2,004</u>
<b>Total current liabilities</b>	<u>59,136</u>	<u>67,580</u>
<b>Non-current liabilities</b>		
Lease obligations	639	7,793
Deferred tax liabilities	1,374	4,416
Other	4,600	4,462
<b>Total non-current liabilities</b>	<u>6,614</u>	<u>16,671</u>
<b>Total liabilities</b>	<u>65,751</u>	<u>84,251</u>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Share capital	4,848	4,848
Capital surplus	26	62
Retained earnings	228,791	240,147
Treasury shares	(9,090)	(9,082)
<b>Total shareholders' equity</b>	<u>224,576</u>	<u>235,975</u>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	5,830	6,766
Foreign currency translation adjustment	4,389	10,770
Remeasurements of defined benefit plans	3,561	5,480
<b>Total accumulated other comprehensive income</b>	<u>13,781</u>	<u>23,017</u>
<b>Non-controlling interests</b>	<u>15,909</u>	<u>16,356</u>
<b>Total net assets</b>	<u>254,267</u>	<u>275,349</u>
<b>Total liabilities and net assets</b>	<u>320,018</u>	<u>359,600</u>

**(2) Consolidated Statements of Income and Comprehensive Income****Consolidated Statement of Income***Millions of yen*

	FY12/2021 (Apr. 1, 2021 – Dec. 31, 2021)	2022 (Jan. 1, 2022 – Dec. 31, 2022)
Net sales	224,983	289,136
Cost of sales	68,078	83,620
Gross profit	156,905	205,515
Selling, general and administrative expenses		
Advertising expenses	18,531	25,767
Promotion expenses	33,697	44,167
Freight and packing costs	13,190	17,414
Salaries and allowances	38,558	49,163
Retirement benefit expenses	396	352
Legal welfare expenses	5,929	7,741
Depreciation	3,793	4,916
Other	23,955	33,871
Total selling, general and administrative expenses	138,052	183,395
Operating profit	18,852	22,120
Non-operating income		
Interest income	155	580
Dividend income	250	212
Refunded consumption taxes	254	501
Gain on investments in investment partnerships	657	-
Foreign exchange gains	1,341	4,306
Subsidy income	715	363
Miscellaneous income	392	709
Total non-operating income	3,767	6,673
Non-operating expenses		
Interest expenses	12	60
Provision of allowance for doubtful accounts	180	105
Loss on investments in investment partnerships	-	114
Miscellaneous loss	55	119
Total non-operating expenses	249	399
Ordinary profit	22,371	28,394
Extraordinary income		
Gain on sale of non-current assets	3	126
Gain on sales of investment securities	90	-
Total extraordinary income	94	126
Extraordinary losses		
Loss on disposal of non-current assets	355	266
Loss on valuation of investment securities	74	25
Loss on valuation of shares of subsidiaries and associates	41	25
Impairment loss	75	171
Loss on liquidation of business	48	-
Extra retirement payments	534	164
Total extraordinary losses	1,130	652
Profit before income taxes	21,335	27,867
Income taxes-current	6,021	7,074
Income taxes-deferred	1,611	1,320
Total income taxes	7,633	8,395
Profit	13,702	19,472
Profit attributable to non-controlling interests	360	700
Profit attributable to owners of parent	13,341	18,771

**Consolidated Statement of Comprehensive Income***Millions of yen*

	FY12/2021 (Apr. 1, 2021 – Dec. 31, 2021)	2022 (Jan. 1, 2022 – Dec. 31, 2022)
Profit	13,702	19,472
Other comprehensive income		
Valuation difference on available-for-sale securities	227	938
Foreign currency translation adjustment	5,178	6,424
Remeasurements of defined benefit plans, net of tax	1,125	2,029
Total other comprehensive income	6,531	9,393
Comprehensive income	20,234	28,866
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	19,723	28,008
Comprehensive income attributable to non-controlling interests	510	857



**(3) Consolidated Statement of Changes in Equity**

FY12/2021 (Apr. 1, 2021 – Dec. 31, 2021)

*Millions of yen*

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	4,848	-	222,354	(9,095)	218,107
Cumulative effects of changes in accounting policies			(10)		(10)
Restated balance	4,848	-	222,344	(9,095)	218,097
Changes of items during period					
Dividends of surplus			(6,845)		(6,845)
Profit attributable to owners of parent			13,341		13,341
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		26		5	32
Change of scope of consolidation			(48)		(48)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	26	6,447	5	6,479
Balance at end of current period	4,848	26	228,791	(9,090)	224,576

*Millions of yen*

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	5,605	(683)	2,476	7,398	15,792	241,299
Cumulative effects of changes in accounting policies						(10)
Restated balance	5,605	(683)	2,476	7,398	15,792	241,288
Changes of items during period						
Dividends of surplus						(6,845)
Profit attributable to owners of parent						13,341
Purchase of treasury shares						(0)
Disposal of treasury shares						32
Change of scope of consolidation					(12)	(60)
Net changes of items other than shareholders' equity	224	5,073	1,084	6,382	129	6,511
Total changes of items during period	224	5,073	1,084	6,382	116	12,978
Balance at end of current period	5,830	4,389	3,561	13,781	15,909	254,267

2022 (Jan. 1, 2022 – Dec. 31, 2022)

Millions of yen

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	4,848	26	228,791	(9,090)	224,576
Changes of items during period					
Dividends of surplus			(7,416)		(7,416)
Profit attributable to owners of parent			18,771		18,771
Purchase of treasury shares				(3)	(3)
Disposal of treasury shares		35		10	46
Net changes of items other than shareholders' equity					
Total changes of items during period	-	35	11,355	7	11,398
Balance at end of current period	4,848	62	240,147	(9,082)	235,975

Millions of yen

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	5,830	4,389	3,561	13,781	15,909	254,267
Changes of items during period						
Dividends of surplus						(7,416)
Profit attributable to owners of parent						18,771
Purchase of treasury shares						(3)
Disposal of treasury shares						46
Net changes of items other than shareholders' equity	936	6,380	1,919	9,236	447	9,683
Total changes of items during period	936	6,380	1,919	9,236	447	21,081
Balance at end of current period	6,766	10,770	5,480	23,017	16,356	275,349

**(4) Consolidated Statement of Cash Flows***Millions of yen*

	FY12/2021 (Apr. 1, 2021 – Dec. 31, 2021)	2022 (Jan. 1, 2022 – Dec. 31, 2022)
Cash flows from operating activities		
Profit before income taxes	21,335	27,867
Depreciation	7,827	9,743
Impairment loss	75	171
Amortization of goodwill	600	959
Loss on liquidation of business	48	-
Extra retirement payments	534	164
Increase (decrease) in allowance for doubtful accounts	147	609
Decrease (increase) in retirement benefit asset	(2,379)	(3,757)
Loss (gain) on disposal of non-current assets	352	136
Interest and dividend income	(405)	(792)
Interest expenses	12	60
Foreign exchange losses (gains)	(912)	(3,465)
Loss (gain) on sale of investment securities	(90)	-
Loss on valuation of shares of subsidiaries and associates	41	25
Loss (gain) on valuation of investment securities	74	25
Loss (gain) on investment in partnerships	(657)	114
Subsidy income	(715)	(363)
Decrease (increase) in trade receivables	(4,013)	(7,444)
Decrease (increase) in inventories	(4,542)	(3,008)
Increase (decrease) in trade payables	2,866	<u>2,082</u>
Increase (decrease) in refund liabilities	3,131	78
Decrease (increase) in other assets	1,074	1,700
Increase (decrease) in other liabilities	(310)	805
Subtotal	<u>24,095</u>	<u>25,711</u>
Interest and dividend income received	1,246	600
Interest expenses paid	(10)	(67)
Proceeds from subsidy income	715	363
Proceeds from insurance income	116	-
Extra retirement payments	-	(698)
Income taxes paid	(8,362)	(5,646)
Net cash provided by (used in) operating activities	<u>17,799</u>	<u>20,261</u>
Cash flows from investing activities		
Payments into time deposits	(17,310)	(26,219)
Proceeds from withdrawal of time deposits	17,517	27,881
Purchase of property, plant and equipment	(2,944)	<u>(4,250)</u>
Proceeds from sales of property, plant and equipment	137	310
Purchase of intangible assets	(1,642)	(2,852)
Proceeds from sale of intangible assets	-	1
Purchase of investment securities	(563)	(1,256)
Proceeds from sales and redemption of investment securities	338	-
Loan advances	(33)	(84)
Collection of loans receivable	0	1
Decrease (increase) in other investments	(221)	157
Net cash provided by (used in) investing activities	<u>(4,722)</u>	<u>(6,311)</u>

*Millions of yen*

	FY12/2021 (Apr. 1, 2021 – Dec. 31, 2021)	2022 (Jan. 1, 2022 – Dec. 31, 2022)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(7,000)	781
Net decrease (increase) in treasury shares	(0)	(3)
Proceeds from long-term borrowings	245	-
Repayments of long-term borrowings	(147)	(98)
Cash dividends paid	(6,845)	(7,416)
Cash dividends paid to non-controlling shareholders	(381)	(410)
Other, net	(173)	(167)
Net cash provided by (used in) financing activities	(14,303)	(7,313)
Effect of exchange rate change on cash and cash equivalents	3,051	5,551
Net increase (decrease) in cash and cash equivalents	1,825	12,187
Cash and cash equivalents at beginning of period	80,051	81,876
Cash and cash equivalents at end of period	81,876	94,063

## **(5) Notes to Consolidated Financial Statements**

### **Going Concern Assumption**

Not applicable.

### **Reclassifications**

#### Consolidated Statement of Income

“Patent licensing” under “non-operating income” presented as separate line items in the previous fiscal year are included in “miscellaneous income” in the current fiscal year due to a decrease in the materiality of impact in the context of consolidated financial statements. To conform to this change, the consolidated financial statements for the previous fiscal year are restated.

Accordingly, “patent licensing” of 6 million yen in the consolidated statement of income for the previous fiscal year have been reclassified and included in “miscellaneous income.”

“Rent expenses on real estates” and “commission expense” under “non-operating expenses” presented as separate line items in the previous fiscal year are included in “miscellaneous loss” in the current fiscal year due to a decrease in the materiality of impact in the context of consolidated financial statements. To conform to this change, the consolidated financial statements for the previous fiscal year are restated.

Accordingly, “rent expenses on real estates” of 3 million yen and “commission expenses” of 9 million yen under “non-operating expenses” in the consolidated statement of income for the previous fiscal year have been reclassified and included in “miscellaneous loss.”

### **Segment and Other Information**

#### **Segment Information**

##### (1) Overview of reportable segment

Segments used for financial reporting are the Company’s constituent units for which separate financial information is available and for which the highest management decision-making body performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

To offer products that meet a diverse range of customer needs, the KOSÉ Group uses a variety of brands to sell products that it conceives and develops. Group companies conduct business activities by establishing and implementing comprehensive strategies in Japan and overseas for each brand.

As a result, KOSÉ has two reportable business segments, cosmetics and cosmetaries, that are based on individual brands.

In the cosmetics segment, principal products are KOSÉ, SEKKISEI, ESPRIQUE, LECHÉRI, ONE BY KOSÉ, COSME DECORTÉ, PRÉDIA, INFINITY, JILL STUART, ADDICTION, ALBION, Tarte and others. In the cosmetaries segment, principal products are Visée, FASIO, MAKE KEEP MIST, NAIL HOLIC, softymo, SUNCUT®, CLEAR TURN, STEPHEN KNOLL NEW YORK and others.

##### (2) Calculation methods for net sales and profit or loss for each reportable segment

The accounting method used for reportable segments is generally the same as the methods listed in “Basis of Preparation of Consolidated Financial Statements”.

Profit or loss for reportable segments are operating profit figures.

Intragroup sales and transfers are based on market prices.

## (3) Information related to net sales and profit or loss for each reportable segment

FY12/2021 (Apr. 1, 2021 – Dec. 31, 2021)

Millions of yen

	Reportable segment			Others (Note 1)	Total	Adjustment (Note 2)	Amounts shown on consolidated financial statements (Note 3)
	Cosmetics	Cosmetaries	Subtotal				
Net sales							
(1) Sales to third parties	189,082	34,351	223,434	1,549	224,983	-	224,983
(2) Intragroup sales and transfers	-	-	-	318	318	(318)	-
Total sales	189,082	34,351	223,434	1,867	225,301	(318)	224,983
Segment profit (loss)	22,724	(752)	21,972	808	22,780	(3,927)	18,852

2022 (Jan. 1, 2022 – Dec. 31, 2022)

Millions of yen

	Reportable segment			Others (Note 1)	Total	Adjustment (Note 2)	Amounts shown on consolidated financial statements (Note 3)
	Cosmetics	Cosmetaries	Subtotal				
Net sales							
(1) Sales to third parties	234,969	52,234	287,203	1,933	289,136	-	289,136
(2) Intragroup sales and transfers	-	-	-	675	675	(675)	-
Total sales	234,969	52,234	287,203	2,609	289,812	(675)	289,136
Segment profit (loss)	25,407	1,101	26,509	1,067	27,576	(5,456)	22,120

Notes: 1. The "others" segment consists of activities that are not included in any of the reportable segments: amenity products and real estate leasing.

2. Adjustments to segment profit (loss) are as follows.

Millions of yen

	FY12/2021	2022
Eliminations for intersegment transactions	(86)	(215)
Corporate expenses that cannot be allocated to reporting segments	(3,840)	(5,240)
Total	(3,927)	(5,456)

Corporate expenses consist primarily of expenses related to the administration division at KOSÉ and expenses for basic research that are not assigned to any particular reportable segment.

3. Segment profit (loss) is adjusted with operating profit shown on the consolidated financial statements.

## (4) Geographic sales information

FY12/2021 (Apr. 1, 2021 – Dec. 31, 2021)

Millions of yen

Japan	Asia	North America	Others	Total
114,078	74,361	32,720	3,823	224,983

2022 (Jan. 1, 2022 – Dec. 31, 2022)

Millions of yen

Japan	Asia	North America	Others	Total
163,037	80,789	40,141	5,168	289,136

**Information Concerning Revenue Recognition**

## Division of sales

The KOSÉ Group has two reportable segments: cosmetics and cosmetaries. These are business units where the Board of Directors performs periodic studies in order to determine the allocation of resources and evaluate performance. The revenue of these two businesses is presented as sales. In addition, geographic sales are divided according to the locations of customers. The relationship between these geographic divisions of revenue and segment sales is as follows.

FY12/2021 (Jan. 1, 2021 – Dec. 31, 2021)

Millions of yen

	Japan	Asia	North America	Others	Total
Cosmetics	79,218	73,325	32,720	3,818	189,082
Cosmetaries	33,312	1,035	-	4	34,351
Total	112,530	74,360	32,720	3,823	223,434
Others (Note)	1,392	1	-	-	1,393
Revenue from contracts with customers	113,922	74,361	32,720	3,823	224,827
Other revenue	155	-	-	-	155
Sales to third parties	114,078	74,361	32,720	3,823	224,983

Note: The "others" segment consists of activities that are not included in any of the reportable segments: amenity products, etc.

2022 (Jan. 1, 2022 – Dec. 31, 2022)

Millions of yen

	Japan	Asia	North America	Others	Total
Cosmetics	110,286	79,387	40,141	5,153	234,969
Cosmetaries	50,820	1,398	-	14	52,234
Total	161,107	80,786	40,141	5,168	287,203
Others (Note)	1,722	3	-	-	1,726
Revenue from contracts with customers	162,830	80,789	40,141	5,168	288,929
Other revenue	207	-	-	-	207
Sales to third parties	163,037	80,789	40,141	5,168	289,136

Note: The "others" segment consists of activities that are not included in any of the reportable segments: amenity products, etc.

### Per Share Information

Yen

	FY12/2021 (Apr. 1, 2021 – Dec. 31, 2021)	2022 (Jan. 1, 2022 – Dec. 31, 2022)
Net assets per share	4,178.06	4,539.45
Net income per share	233.86	329.03

Notes: 1. Net income per share (diluted) is not presented since KOSÉ has no outstanding dilutive securities.

2. The following is a reconciliation of net income per share.

Millions of yen

	FY12/2021 (Apr. 1, 2021 – Dec. 31, 2021)	2022 (Jan. 1, 2022 – Dec. 31, 2022)
Profit attributable to owners of parent	13,341	18,771
Net income not attributable to common shareholders	-	-
Profit attributable to owners of parent available to common stock	13,341	18,771
Average number of shares outstanding (thousand shares)	57,048	57,052

### Subsequent Events

Not applicable.

Note: This is a translation of Japanese Kessan Tanshin (including attachments), a summary of financial statements prepared in accordance with accounting principles generally accepted in Japan. This translation is prepared and provided for the purpose of the reader's convenience. All readers are recommended to refer to the original version in Japanese of the report for complete information.