SHISEIDO Co., Ltd. FY2012

First Three Quarters Results and Outlook

2013-1-31

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President & CEO
SHISEIDO Co., Ltd.

In this document, statements other than historical facts are forward-looking statements that reflect our plans and expectations. These forward-looking statements involve risks, uncertainties, and other factors that may cause actual results and achievements to differ from those anticipated in these statements.

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First Three Quarters Results (Ended December 2012)

(Billion yen)	Results	YoY % Change	Local Currency	YoY Amount
Net Sales	484.8	-1.2%	+0.5%	-5.9
Domestic	272.7	-2.6%	-2.6%	-7.4
Overseas	212.1	+0.7%	+4.7%	+1.5
Operating Income	9.2	-65.8%	-61.9%	-17.6
Ordinary Income	10.1	-62.6%	—	-16.9
Net Income	4.6	-21.0%	—	-1.2

- Overseas Sales Ratio 43.8% (+0.9 pp)
- Operating Margin 1.9% (-3.6 pp)
- Exchange Rate 1 US$ = ¥79.4 (-2%) 1 € = ¥101.8 (-10%) 1 RMB = ¥12.6 (+1%)

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Outlook for FY2012

(Billion yen)	Forecast	YoY % Change	Local Currency	Difference from Oct. 31 Forecast
Net Sales	680.0	-0.3%	+0%	-20.0
Domestic	376.0	-1.0%	-1%	-6.0
Overseas	304.0	+0.5%	+1%	-14.0
Operating Income	24.5	-37.4%	—	-15.5
Ordinary Income	25.5	-35.3%	—	-14.5
Extraordinary Income/Loss	-7.0	(-0.5)	—	-5.5
Net Income	10.5	-27.7%	—	-11.5

- Overseas Sales Ratio 44.7% (+0.4 pp)
- Operating Margin 3.6% (-2.1 pp)
- Exchange Rate 1 US$ = ¥79.8 (+0%) 1 € = ¥102.6 (-8%) 1 RMB = ¥12.7 (+3%)

*The figure in parentheses is the amount in the previous fiscal year.

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Domestic Cosmetics Third Quarter Review

The head office and sales subsidiary united to focus on bolstering over-the-counter sales

Strengthened counter activities and sales space enhancement	Introduced carefully-selected new products	Developed existing mainstay products

Line	*ELIXIR*, *clé de peau BEAUTÉ*, *AQUALABEL*, and *INTEGRATE* remained strong.
Channel	Sales grew primarily through department stores and drugstores.



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Domestic Cosmetics　Initiatives from Fourth Quarter

Strengthening foundation



MAQuillAGE True Powdery UV



Launching limited-sales items from *d program* and *INTEGRATE*

Innovation of *TSUBAKI*



Reinforcing brightening lines and lines for cosmetics specialty stores



Shiseido *HAKU Melanofocus CR*



BENEFIQUE THEOTY (point makeup series)

Proposing a new cosmetic habit





FullMake Washable Base

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Global　Fourth Quarter

Overseas sales forecast revised down ¥14.0bn from figure announced in October

Sales declined more than expected in China. Sales were sluggish in Europe.

Forecast for China at the end of October

Sales in 1st half (Result)	● Rose by mid-10% year on year
Sales in 2nd half (Forecast)	● Would rise in the mid-single digits year on year
Sales in full year (Forecast)	● Would increase around 10% year on year

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Flash report of sales in China in Q4 (Oct. through Dec.)

	Result YoY Change	Factors in the difference
Sales in Q3	● Will fall around 10% year on year	-
Sales in Q4	● The forecast at the end of October is revised down more than ¥10.0bn. ● Will decline nearly 20% year on year	● Planned sales promotion was not carried out. ● Gift demand was weak. ● Shipments of the lineup of products for the Lunar New Year holiday were more sluggish than expected.
Sales in full year	● Will remain at the previous year's level	

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Secure high profits even with limited growth

- **We will strive to secure sales by concentrating our management resources primarily on *AUPRES* and *PURE & MILD* and on metropolitan areas with relatively minor impact and a certain degree of sales.**
- **We will streamline our business structure with a focus on cost structural reforms.**

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Outlook for FY2012

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The figure in parentheses is the amount in the previous fiscal year.

- Overseas Sales Ratio 44.7% (+0.4 pp)
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Structural Reforms

Environmental changes

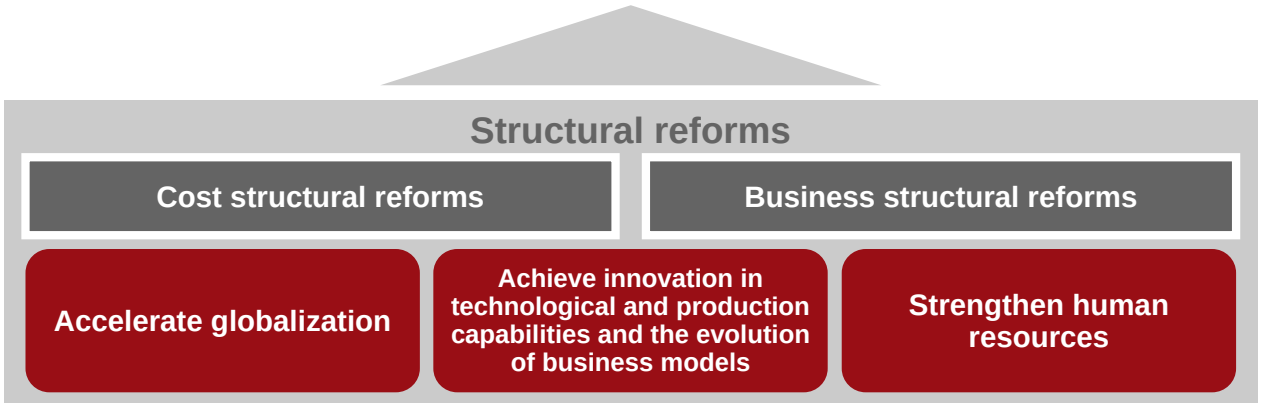
- Prolonged economic stagnation in Japan
- Economic slowdown in Europe and China
- Severely damaged relationship between Japan and China
- Impact of the yen's appreciation

We aim for a significantly profitable structure that will allow us to achieve steady growth in profit even with sales growth matching market performance.

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Structural Reforms

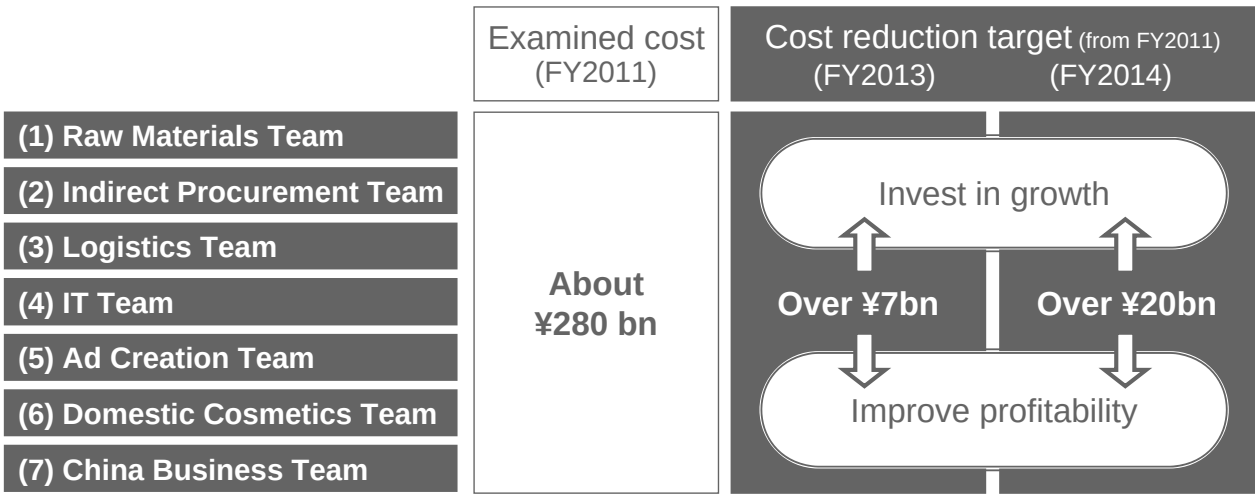
- We have not changed our goal of “becoming a global player representing Asia with its origins in Japan.”
- We will increase both our social value, as expressed in society’s confidence and longing, and our economic value, such as growth in sales and profit.



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Structural Reforms Cost Structural Reforms

We have already started undertaking reforms, and we will be seeking to turn our efforts into early outcomes.



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Structural Reforms　Business Structural Reforms

We will streamline our business structure to achieve sustainable growth and profitability improvement on a global level.

Reorganize production and research and development bases	Strengthen management of human resources and personnel costs	Integrate functions globally
To be described today		
(1) Close Kamakura Factory Transfer production to the Vietnam plant	(3) Reduce personnel costs Create challenging and rewarding organizational climate	We announced structural reforms in the Americas in June last year. We will announce the expansion of reforms into other areas as soon as details are finalized.
(2) Integrate laboratories for basic R&D and product R&D		

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Structural Reforms　Business Structural Reforms (1): Reorganize Production Bases

Reform the supply chain on a global level

Our overseas sales ratio has been increasing, and sales are rising, mainly in Asia.

Minimize the impact of exchange rate	Reduce cost of goods sold	Improve value-creation capability

Close the Kamakura Factory at the end of March 2015
Increasing production at the Vietnam plant as part of initiatives to transfer production overseas

Reduction in manufacturing costs to enhance competitiveness	Business continuity plan and earthquake risk response	Environment in the area surrounding the factory

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Structural Reforms　Business Structural Reforms (2): Reorganize R&D Bases

Reform the supply chain on a global level

Our overseas sales ratio has been increasing, and sales are rising, mainly in Asia.

Minimize the impact of exchange rate	Reduce cost of goods sold	Improve value-creation capability

Close the Research Center at Kanazawahakkei in the first half of FY2013 and integrating it into the Research Center at Shin-yokohama

Leverage basic technologies in the market quickly	Integrate basic R&D and product R&D	Improve value-creation capability

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Structural Reforms　Business Structural Reforms (3): Strengthen Management of Human Resources and Personnel Costs

Steps taken to strengthen management of human resources and personnel costs	**In response to globalization** ● Introduce a behavioral model based on corporate philosophy on a global level ● Set job grades on a global level ● Create human resource development committees in the four regions of the world ● Introduce a talent management system, including overseas staff ● Standardize operations with the introduction of the SAP system

◆ The ratio of personnel costs in Japan has been rising every year, and significant sales growth is unlikely.
◆ Improving human productivity and reinforcing the business structure will be critical.

As the first specific measure for strengthening the management of human resources and personnel costs, we will seek to revise our early retirement incentive plan and abolish the paid leave prior to voluntary resignation in preparation for a career change.

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Revising our early retirement incentive plan and abolishing paid leave prior to voluntary resignation in preparation for a career change.

- We will partially abolish additional retirement benefits (preferential treatment) in our optional retirement system for employees aged 45 or older.
- We will abolish the paid leave prior to voluntary resignation in preparation for a career change, which is available for employees who intend to retire using the optional retirement system.
- As safeguards for the abolishment of the system*, we will pay early retirement bonuses to employees who opt for early retirement within 18 months.
  * The safeguards will be available for employees aged 40 and older.

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Ensure appropriate personnel evaluations based on the roles and achievements of individual employees

Appoint the right people for the right jobs globally

Create challenging and rewarding organizational climate

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In FY2013,
we will improve our performance, aiming for a significantly profitable structure that will allow us to achieve steady growth in profit even with sales growth matching market performance. We will also continue to develop the infrastructure for sustainable growth.

We will pay a 25 yen term-end dividend.
The annual dividend will remain 50 yen.

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This moment. This life. Beautifully.

Sales by Reportable Segment

(Billion yen)	12/12 Result	% of Net Sales	11/12 Result	% of Net Sales	YoY % Change	Local Currency
Domestic Cosmetics	252.1	52.0%	260.3	53.1%	-3.2%	-3.2%
Global Business	225.6	46.5%	223.9	45.6%	+0.8%	+4.5%
Others	7.1	1.5%	6.5	1.3%	+9.9%	+9.9%
Total	484.8	100.0%	490.7	100.0%	-1.2%	+0.5%

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Domestic Cosmetics Sales: by Reportable Segment

(Billion yen)	12/12 Result	% of Net Sales	11/12 Result	% of Net Sales	YoY Amount	YoY % Change
Counseling	129.8	26.8%	133.6	27.2%	-3.8	-2.9%
Self-selection	56.9	11.7%	57.0	11.6%	-0.0	-0.0%
Toiletries	28.6	5.9%	33.2	6.8%	-4.6	-13.9%
Cosmetics	215.3	44.4%	223.7	45.6%	-8.5	-3.8%
Healthcare	11.2	2.3%	11.0	2.3%	+0.2	+1.7%
Others	25.6	5.3%	25.6	5.2%	+0.0	+0.0%
Domestic Cosmetics	252.1	52.0%	260.3	53.1%	-8.3	-3.2%

- The domestic over-the-counter market recovered slightly as in the first half (growth rate estimated at 0% to 1% year on year).
- Over-the-counter sales (counseling + self-selection) at Shiseido grew 0% to 1% year on year.
- Market inventory declined sharply year on year.

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Global Business Sales: by Reportable Segment

(Billion yen)	12/12 Result	% of Net Sales	11/12 Result	% of Net Sales	YoY Amount	YoY % Change	Local Currency
Cosmetics	195.5	40.3%	193.2	39.4%	+2.3	+1.2%	+5.1%
Professional	30.1	6.2%	30.7	6.2%	-0.6	-1.9%	+0.9%
Global Business	225.6	46.5%	223.9	45.6%	+1.7	+0.8%	+4.5%

- The cosmetics markets in the Americas were relatively solid, while the markets in Europe were weak due to uncertainty over the economies.
- Growth in the Chinese market slowed. The risk of adverse effects of the Senkaku Islands dispute on sales at Japanese companies emerged.
- Sales grew moderately in other markets in Asia overall, at different levels in different countries and territories.

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Sales by Geographic Segment

(Billion yen)	12/12 Result	% of Net Sales	11/12 Result	% of Net Sales	YoY Amount	YoY % Change	Local Currency
Japan	272.7	56.2%	280.1	57.1%	-7.4	-2.6%	-2.6%
Americas	67.0	13.8%	66.4	13.5%	+0.7	+1.0%	+3.5%
Europe	54.7	11.3%	59.2	12.1%	-4.5	-7.5%	+1.9%
Asia/ Oceania	90.4	18.7%	85.1	17.3%	+5.3	+6.2%	+7.6%
Overseas	212.1	43.8%	210.6	42.9%	+1.5	+0.7%	+4.7%
Total	484.8	100.0%	490.7	100.0%	-5.9	-1.2%	+0.5%

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Cost of Sales / SG&A

(Billion yen)	12/12 Result	% of Net Sales	% pt. Change (+: decrease)	11/12 Result	% of Net Sales	YoY Increase/ Decrease (+: cost cut)	YoY % Change
Cost of Sales	116.9	24.1%	-0.3%	116.8	23.8%	-0.1	+0.1%
SG&A	358.7	74.0%	-3.3%	347.1	70.7%	-11.6	+3.3%
(Domestics)	209.3	77.2%	-2.7%	207.4	74.5%	-1.9	+0.9%
(Overseas)	149.4	69.9%	-4.1%	139.7	65.8%	-9.7	+6.9%
Advertising & Selling	115.0	23.7%	-1.2%	110.3	22.5%	-4.6	+4.2%
Personnel	126.8	26.2%	-1.4%	121.9	24.8%	-5.0	+4.1%
Others	110.2	22.7%	-0.7%	108.0	22.0%	-2.1	+2.0%
M&A-related Amortization Cost	6.8	1.4%	+0.0%	6.9	1.4%	+0.1	-1.9%

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Operating Income by Reportable Segment

	(Billion yen)	12/12 Result	11/12 Result	YoY Amount	YoY % Change
Domestic Cosmetics	Operating Income	17.5	24.4	-6.9	-28.4%
	OP Margin	6.9%	9.3%		-2.4 pp
Global Business	Operating Income	-9.6	1.3	-10.9	—
	OP Margin	-4.2%	0.6%		-4.8 pp
Others	Operating Income	1.4	1.0	+0.4	+34.8%
	OP Margin	12.7%	10.1%		+2.6 pp
Elimination	Operating Income	-0.1	0.0	-0.1	—
Total	Operating Income	9.2	26.7	-17.6	-65.8%
	OP Margin	1.9%	5.5%		-3.6 pp

* Operating income in each reportable segment includes expenses for home office functions.

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Consolidated Balance Sheets

(Billion yen)	12/12	Change from 2012/3	Excluding Foreign Currency Exchange	Foreign Currency Exchange
Total Current Assets	280.2	-35.1	-35.4	+0.3
Cash Deposits and Securities	61.7	-32.2	-32.3	+0.2
Notes & Accounts Receivable	94.6	-18.3	-18.4	+0.1
Inventories	86.1	+14.2	+14.1	+0.1
Total Fixed Assets	396.7	-8.7	-8.7	-0.0
Property Plant and Equipment	128.6	-1.2	-1.3	+0.1
Intangible Assets	166.3	-7.3	-7.1	-0.2
Investments and Other Assets	101.8	-0.2	-0.3	+0.1
Total Assets	676.9	-43.8	-44.1	+0.3

(Billion yen)	12/12	Change from 2012/3	Excluding Foreign Currency Exchange	Foreign Currency Exchange
Total Liabilities	386.9	-30.1	-30.1	+0.0
Notes & Accounts Payable	44.4	-3.9	-3.9	-0.0
Other Payables	31.5	-12.8	-12.8	+0.0
Accrued Bonuses for Employees	6.4	-8.6	-8.6	+0.0
Interest-Bearing Debt	185.6	+0.5	+0.5	+0.0
Total Net Assets	290.0	-13.7	-14.0	+0.3
Shareholders' Equity	341.3	-15.2	—	—
Other Comprehensive Income	-65.6	+0.5	—	—
Minority Interests	13.5	+1.0	—	—
Total Liabilities and Net Assets	676.9	-43.8	-44.1	+0.3

1 US$ = ¥77.6 1 € = ¥100.2 1 RMB = ¥12.3 (2012/12)
1 US$ = ¥77.7 1 € = ¥100.7 1 RMB = ¥12.3 (2012/3)

NOTE: Major account title only
Equity Ratio: 40.7%

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