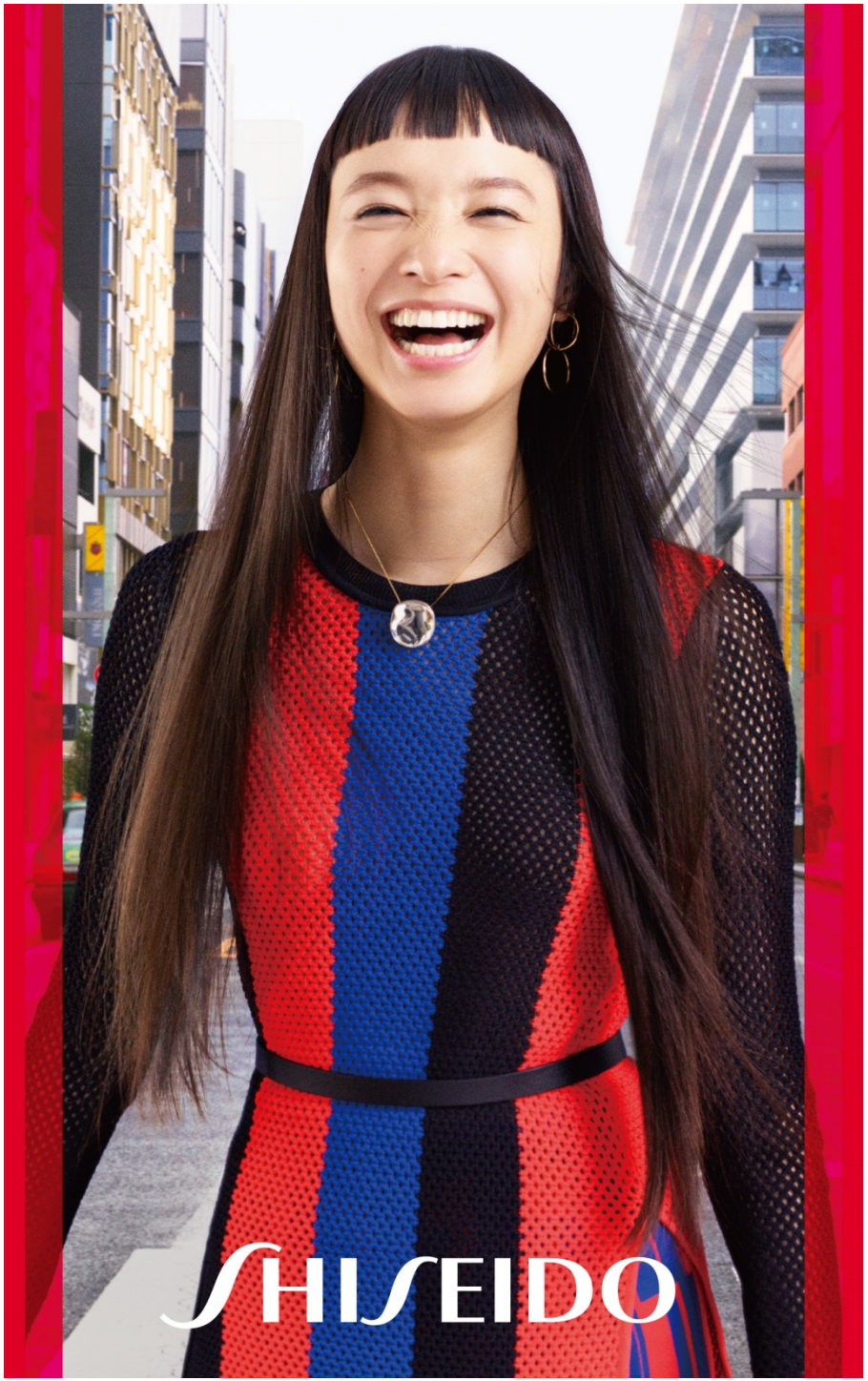
FY2017
First Quarter Results

May 12, 2017

Norio Tadakawa
Corporate Officer, CFO
Shiseido Company, Limited



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.

FY2017 Q1: Executive Summary

Highest first quarter results for both net sales and operating income

Net sales: ¥232.5 billion YoY change in local currency: +10.7% YoY change in yen: +9.0%

- **Growth momentum was maintained at a high level, with the steady contributions of new brands.**
  - **Existing businesses grew, accelerated and driven by borderless marketing targeting Chinese customers in Japan business, China business, and Travel Retail (TR) business mainly in the Prestige area.**
  - ***Laura Mercier* grew as expected while *Dolce&Gabbana* continued its trend of gradual softening. However, both brands achieved the planned results.**
  - **Initiatives for improvement began for Bare Escentuals, Cosmetics in China, and Personal Care in Japan.**

Operating income: ¥24.1 billion YoY change: +9.3%

- **Increase in earning power of existing businesses**
  - **Improvement in the product mix and marketing ROI attributed to the growth of the Prestige business**
  - **Profitability improvement in focus markets (Japan, China, and TR) contributed significantly to the profits of the overall company.**
  - **Reform of cost structure, efficient cost control contributed to the results.**

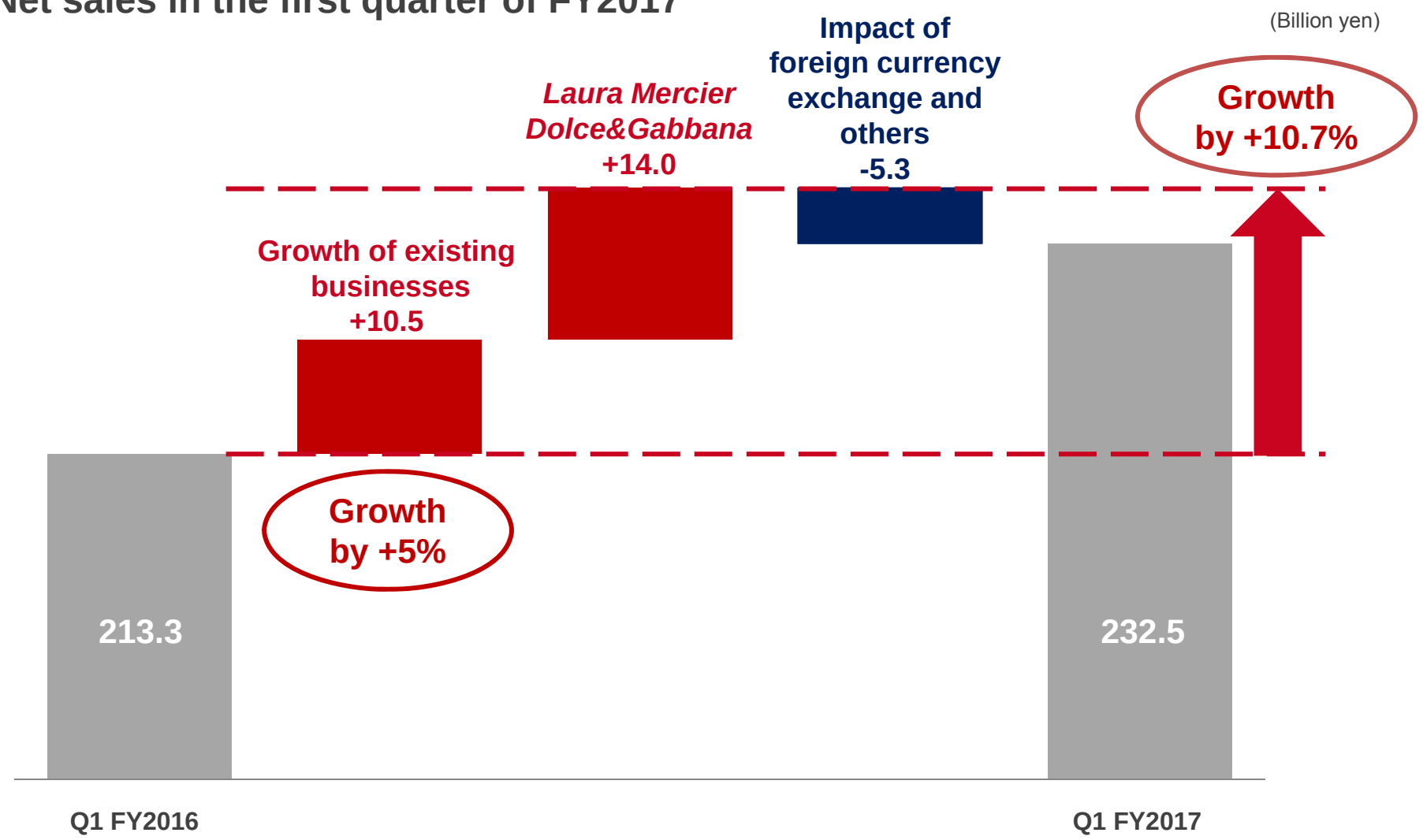
Summary of FY2017 Q1 Results

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
Net Sales	232.5	100	213.3	100	+19.2	+9.0	+10.7
Cost of Sales	54.5	23.4	51.0	23.9	+3.5	+6.8	
SG&A	153.9	66.2	140.2	65.7	+13.7	+9.7	
Operating Income	24.1	10.4	22.1	10.4	+2.0	+9.3	
Ordinary Income	23.9	10.3	22.0	10.3	+1.9	+8.8	
Extraordinary Income/Loss (net)	-0.4	-0.2	17.4	8.2	-17.8	–	
Net Income Attributable to Owners of Parent	14.0	6.0	27.3	12.8	-13.3	-48.7	

Exchange rates: USD 1 = JPY 113.6 (-1.6%), EUR 1 = JPY 121.1 (-4.8%), CNY 1 = JPY 16.6 (-5.9%)

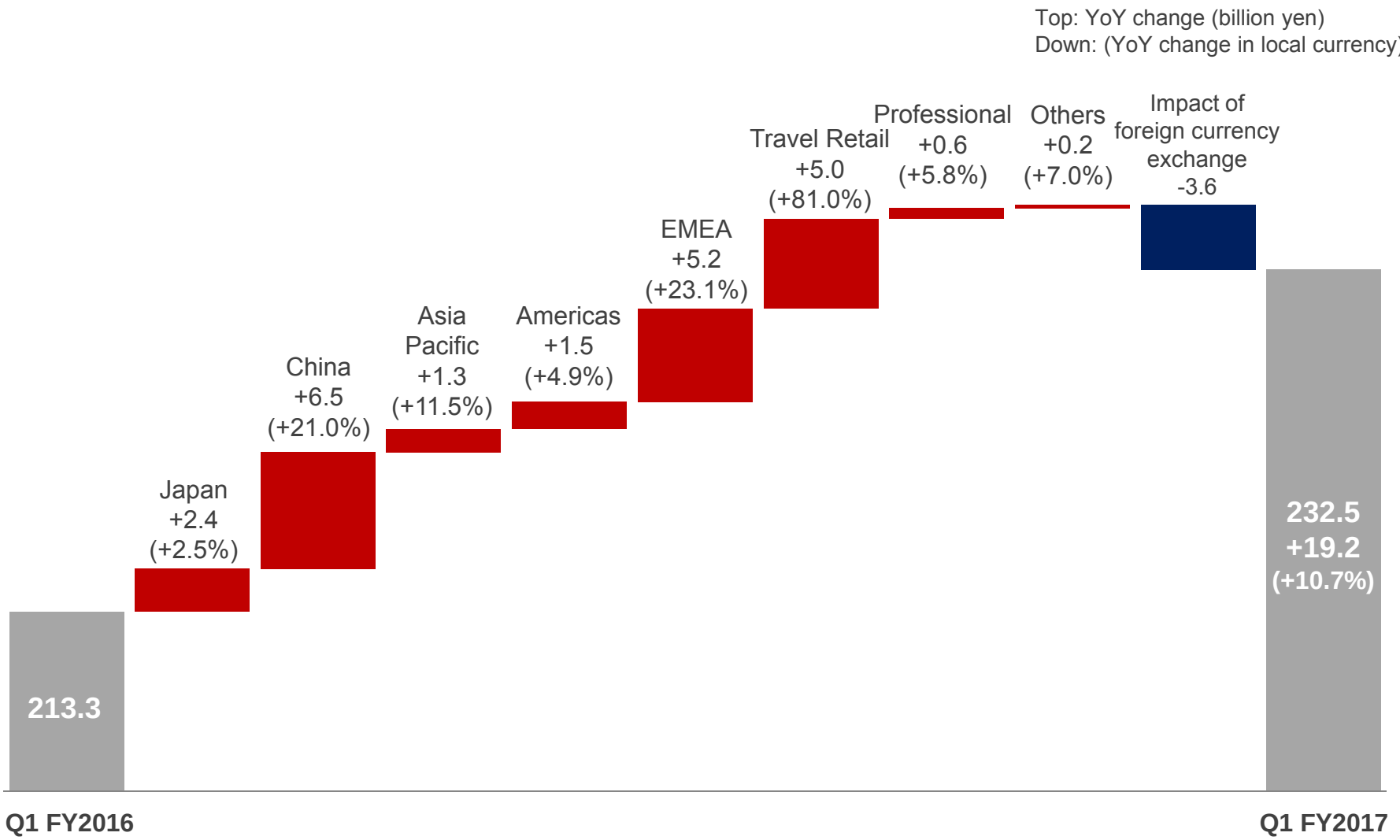
Growth Expanded with Net Sales from Existing Businesses

Net sales in the first quarter of FY2017



Net Sales Increased in All Regions, Supported by the Addition of New Brands

YoY Breakdown of change in net sales by reportable segment



* The year-on-year change, and year-on-year change in local currency terms for each business were calculated based on the actual exchange rates.

Japan: +2.5% Increase of Net Sales, with Improved Profitability and ROI

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %
Prestige	20.4	8.8	16.8	7.9	+3.5	+21.0
Cosmetics Specialty Stores	16.8	7.2	17.0	8.0	-0.2	-1.1
Cosmetics	45.7	19.7	46.4	21.7	-0.7	-1.4
Personal Care	12.6	5.4	13.3	6.3	-0.8	-5.9
Others[3]	5.6	2.4	5.1	2.4	+0.5	+10.6
Japan	101.1	43.5	98.7	46.3	+2.4	+2.5

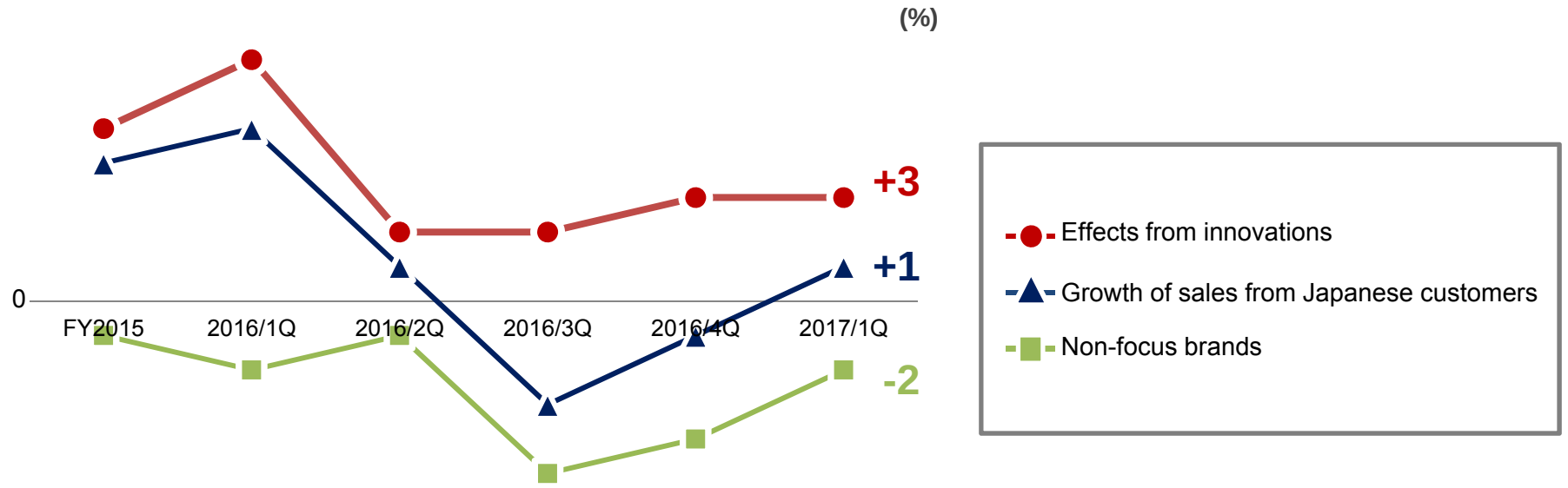
(Billion yen)	2017 Q1	FY2016 Q1	YoY Change	YoY Change %
Operating Income	19.9	17.9	+2.1	+11.5
Operating Profitability (%)	18.3	17.4	+0.9 pt	
Income Before Amortization of Goodwill, etc.	20.0	18.0	+2.1	+11.4
Operating Profitability (%)	18.4	17.4	+1.0 pt	

1. In line with the management system of Japan, THE GINZA, etc. which were previously included in “Others” of Japan business, are classified as “Prestige” starting from FY2017. In addition, Shiseido Amenity Goods Co., Ltd., which was included in “Personal Care,” is now classified as “Others.”
2. See Supplemental Data 6 for details about changes in reportable segments.
3. “Others” include Healthcare Business, Shiseido Amenity Goods Co., Ltd. and others.
4. % of Net Sales indicates percentage to consolidated net sales.
5. Operating profitability is calculated using net sales including intersegment transactions.

Growth Momentum Exceeding Market Growth

- **Market**
  - Growth of the cosmetics market: +1 ~ 2% (Shiseido estimate)
  - Increase in the number of foreign tourists to Japan
- **Shiseido**
  - YoY change in store sales: +4% (Sales from Japanese customers: +1%, Inbound: +3%)
  - Inbound sales: ¥13.0 billion (YoY change: +30%)

Breakdown of growth rate in sales from Japanese customers (Effects of innovations and non-focus brands)



Strengthen Borderless Marketing

Before and during visit to Japan → **After returning to China**



Japan

- Inbound
- Cross-border e-commerce

Increased rate of repeat visits to Japan

- Percentage of people intending to visit Japan again: 80%[3]

China

- Stores
- e-commerce

Increased customer contact points

- Rate of increase in number of visitors to Japan during this first quarter: 14%[1]
- **Percentage of visitors who purchase cosmetics grows as they visit Japan more.[2]**

Increased opportunities to purchase our products after returning to China

- **Percentage of people who purchase products again in China: Approx. 50%[2]**



Travel Retail

- Airport duty free shops
- Downtown duty free shops
- Inflight sales

1. Japan National Tourism Organization (JNTO)
2. Research by Shiseido (Fact-finding survey about consumption by Chinese tourists to Japan)
3. Source: Nomura Research Institute, *Chugoku-jin Hounichi Ryoko-sha no Jittai to Needs* (A survey on Chinese tourists to Japan and their needs)

Strong Results in Mid-Priced and High-Priced Products/ Strategies for Personal Care Being Redeveloped

- **Prestige**
  - **Accelerated growth of *SHISEIDO, clé de peau BEAUTÉ*, and *IPSA***
- **Cosmetic Specialty Store**
  - **Strong sales of *BENEFIQUE***
  - **Beginning of distribution of the *SHISEIDO* products at this channel**





- **Cosmetics**
  - ***MAQuillAGE* base makeup significantly expanded its share**
  - **Strong sales of *ELIXIR***
- **Personal Care**
  - **Strong sales of *SEA BREEZE* for young consumers**
  - **Redevelopment of strategies for haircare, body care, and men's products**
- **Japan Retail Innovation Co., Ltd.**
  - **Enhancement of joint partnerships of three companies (Unicharm Corporation, Lion Corporation, and Shiseido)**

Early Launch of New Wrinkle Improvement Products (June 21)

<Shiseido Facial Expression Project>

- **The new product with retinol as the active ingredient will be launched by *ELIXIR*. The ingredient will also be applied to other brands.**
- **Increased investment aimed at creating a market of wrinkle improvement through active retinol.**

<ELIXIR SUPERIUR Enriched Wrinkle Cream S>

- **Increasing customer contact points by offering it at approximately 15,000 stores (Drugstores, general merchandise stores, department stores, cosmetic specialty stores, and watashi+)**
- **Target sales: 1 million items (June to December, 2017)**



Shiseido Facial Expression Project



ELIXER SUPERIEUR Enriched Wrinkle Cream S
[Quasi-drug]
To be launched on June 21, 2017
¥5,800 (excluding tax) (watashi+ price)

China: +21.0% Increase in Sales, with a Significant Improvement in Profitability

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
China	35.5	15.3	30.9	14.5	+4.6	+14.9	+21.0

(Billion yen)	FY2017 Q1	FY2016 Q1	YoY Change	YoY Change %
Operating Income	6.6	3.5	+3.1	+88.6
Operating Profitability (%)	18.6	11.3	+7.3 pt	
Income Before Amortization of Goodwill, etc.	6.7	3.6	+3.1	+86.1
Operating Profitability (%)	18.8	11.6	+7.2 pt	

1. See Supplemental Data 6 for details about changes in reportable segments.
2. % of Net Sales indicates percentage to consolidated net sales.
3. Operating profitability is calculated using net sales including intersegment transaction.

China: Further Acceleration of the Powerful Growth Momentum

- **Growth driven by Prestige brands, resulting in double-digit growth**
  - **Results of *SHISEIDO*, *clé de peau BEAUTÉ*, and *IPSA***
  - **Increase in the percentage of Prestige brands in e-commerce**

- **E-commerce growth of more than 30% due to the stepped up development of the e-commerce business for Personal Care and Cosmetics**

- ***ELIXIR*: Strong in both e-commerce and stores**

- **Cosmetics business: Rebuilding the foundation**
  - **Positive growth* of *AUPRES* after renewal**
  - **Rebuilding business models for *Za* and *PURE&MILD***



* YoY change in store sales in March

Asia Pacific: +11.5% Increase of Sales, with Improvement in Profitability

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
Asia Pacific	13.3	5.7	11.6	5.4	+1.7	+14.3	+11.5

(Billion yen)	FY2017 Q1	FY2016 Q1	YoY Change	YoY Change %
Operating Income	2.7	1.3	+1.4	+108.4
Operating Profitability (%)	19.6	11.0	+8.6 pt	
Income Before Amortization of Goodwill, etc.	2.7	1.3	+1.4	+107.0
Operating Profitability (%)	19.7	11.2	+8.5 pt	

- **Korea: Strong results attributed to localized marketing**
- ***clé de peau BEAUTÉ* and *NARS***
  Double-digit growth, mainly in department stores
- **Personal Care brands: Continued brisk sales of *SENKA***

1. See Supplemental Data 6 for details about changes in reportable segments.
2. % of Net Sales indicates percentage to consolidated net sales.
3. Operating profitability is calculated using net sales including intersegment transaction.

Americas: Increase in Sales and Decrease in Income as Anticipated

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
Americas	31.1	13.4	30.0	14.1	+1.0	+3.4	+4.9

*** The year-on-year percentage change is -22% excluding the acquisition of *Laura Mercier*, and the licensing of *Dolce&Gabbana*.**

(Billion yen)	FY2017 Q1	FY2016 Q1	YoY Change	YoY Change %
Operating Income	-3.7	-0.4	-3.3	–
Operating Profitability (%)	-10.8	-1.2	-9.6 pt	
Income Before Amortization of Goodwill, etc.	-1.5	1.7	-3.1	–
Operating Profitability (%)	-4.2	5.1	-9.3 pt	

1. See Supplemental Data 6 for details about changes in reportable segment.
2. % of Net Sales indicates percentage to consolidated net sales.
3. Operating profitability is calculated using net sales including intersegment transaction.
4. Effective from the fiscal year ending December 31, 2017, *bareMinerals, NARS* etc. in the U.K. included in the “Americas Business” under the Company’s previous segment classification structure has been included in the “EMEA Business.”
5. Effective from the fiscal year ending December 31, 2017, the Fragrance business in Latin America included in the “EMEA Business” under the Company’s previous segment classification structure has been included in the “Americas Business.”

Americas: Focus on Rebuilding the Foundation in FY2017

- **The rebuilding of *bareMinerals***
  - Full operation of the new management structure
  - Strengthening digital investment, expanding new products by identifying customer needs

Results of the structural reforms expected to be seen from the second half of this year

- ***Laura Mercier* made progress as planned**
  - Continuously expanded growth in specialty stores
  - Steady progress in the integration with existing businesses



EMEA: Increase in Sales but Decline in Profit

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
EMEA	26.5	11.4	22.5	10.6	+4.0	+17.6	+23.1

*** Year-on-year percentage change is +6% excluding the effect of the licensing of *Dolce&Gabbana*.**

(Billion yen)	FY2017 Q1	FY2016 Q1	YoY Change	YoY Change %
Operating Income	-2.1	-0.0	-2.1	–
Operating Profitability (%)	-7.6	-0.1	-7.5 pt	
Income Before Amortization of Goodwill, etc.	-1.2	-0.0	-1.2	–
Operating Profitability (%)	-4.3	-0.1	-4.2 pt	

1. See Supplemental Data 6 for details about changes in reportable segment.
2. % of Net Sales indicates percentage to consolidated net sales.
3. Operating profitability is calculated using net sales including intersegment transaction.
4. Effective from the fiscal year ending December 31, 2017, *bareMinerals, NARS* etc. in the U.K. included in the “Americas Business” under the Company’s previous segment classification structure has been included in the “EMEA Business.”
5. Effective from the fiscal year ending December 31, 2017, the Fragrance business in Latin America included in the “EMEA Business” under the Company’s previous segment classification structure has been included in the “Americas Business.”

EMEA: Establishing Foundation for Growth by Refining Our Focus in Investment

- ***Dolce&Gabbana***
  - Decrease of store sales attributed to insufficient product supply
  - Transfer of production was advanced ahead of schedule (March)
  - Upfront investment made: Marketing investment and brand development cost





- **Termination of distribution agreements with Burberry**
  (Planned for December 31, 2017)
  - Reviewing the brand portfolio aimed at improving the profitability
  - Accelerating the growth of core brands

  Intensive investment in ***Dolce&Gabbana*** and existing fragrance brands

Travel Retail: +81.0% Increase in Sales, with Significant Improvement in Profitability

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
Travel Retail	11.0	4.7	6.2	2.9	+4.8	+77.8	+81.0

(Billion yen)	FY2017 Q1	FY2016 Q1	YoY Change	YoY Change %
Operating Income	3.7	1.6	+2.1	+130.7
Operating Profitability (%)	33.7	26.0	+7.7 pt	
Income Before Amortization of Goodwill, etc.	3.7	1.6	+2.1	+130.7
Operating Profitability (%)	33.7	26.0	+7.7 pt	

- **Accelerated growth, mainly in Asia (China, Korea, and Thailand) through aggressive investment**
- **Thanks to the strengthened relationship with retailers, an improvement in productivity per counter and an increase in the number of counters were achieved at the same time.**



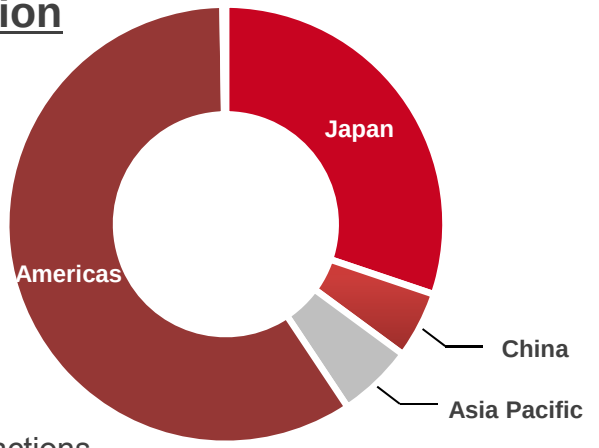
1. % of Net Sales indicates percentage to consolidated net sales.
2. Operating profitability is calculated using net sales including intersegment transaction.

Professional: +5.8% Increase in Sales, with Improved Profitability

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
Professional	10.8	4.6	10.3	4.8	+0.5	+4.7	+5.8

(Billion yen)	FY2017 Q1	FY2016 Q1	YoY Change	YoY Change %
Operating Income	0.4	-0.3	+0.7	–
Operating Profitability (%)	4.1	-2.7	+6.8 pt	
Income Before Amortization of Goodwill, etc.	0.5	-0.1	+0.6	–
Operating Profitability (%)	4.9	-1.0	+5.9 pt	

Sales by region



- **Strong results of Zotos, which operates mainly in the Americas**

1. See Supplemental Data 6 for details on changes in reportable segments.
2. % of Net Sales indicates percentage to consolidated net sales.
3. Operating profitability is calculated using net sales including intersegment transactions.

Key Actions for FY2017

Key actions		Progress
Segments of further focus	Give top priority to Prestige	● Double-digit growth of all mainstay brands ● Growth of *clé de peau BEAUTÉ* and *IPSA* by more than 30%
	Accelerate growth of Japanese brands	● Significant growth in China, Asia and Travel Retail ● Growth brands: *ELIXIR*, *ANESSA* and *SENKA* (excluding Travel Retail)
	Strengthen Digital communication/ e-commerce	● Results exceeded expectation, mainly in China
Initiatives for solving issues	Bare Escentuals	● Brand power is being redeveloped
	AUPRES	● Renewal is in progress
	Personal Care business in Japan	● Creating a short list of focus brands, ongoing redevelopment of comprehensive marketing plans (including development in Asia)
Improve productivity		● Specific actions are being taken as planned


SHISEIDO

Supplemental Data 1
Q1 Results of Sales by Reportable Segment

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
Japan	101.1	43.5	98.7	46.3	+2.4	+2.5	+2.5
China	35.5	15.3	30.9	14.5	+4.6	+14.9	+21.0
Asia Pacific	13.3	5.7	11.6	5.4	+1.7	+14.3	+11.5
Americas	31.1	13.4	30.0	14.1	+1.0	+3.4	+4.9 * 1, 2
EMEA	26.5	11.4	22.5	10.6	+4.0	+17.6	+23.1 *1, 3
Travel Retail	11.0	4.7	6.2	2.9	+4.8	+77.8	+81.0
Professional	10.8	4.6	10.3	4.8	+0.5	+4.7	+5.8
Other	3.3	1.4	3.1	1.4	+0.2	+7.0	+7.0
Total	232.5	100	213.3	100	+19.2	+9.0	+10.7

1. Effective from the fiscal year ending December 31, 2017, *bareMinerals, NARS* etc. in the U.K. included in the “Americas Business” under the Company’s previous segment classification structure has been included in the “EMEA Business.”
   Effective from the fiscal year ending December 31, 2017, the Fragrance business in Latin America included in the “EMEA Business” under the Company’s previous segment classification structure has been included in the “Americas Business.”
2. Year-on-year percentage change is -22% excluding the acquisition of *Laura Mercier*, and the licensing of *Dolce&Gabbana*.
3. Year-on-year percentage change is +6% excluding the licensing of *Dolce&Gabbana*.
4. See Supplemental Data 6 for details about changes in reportable segment.

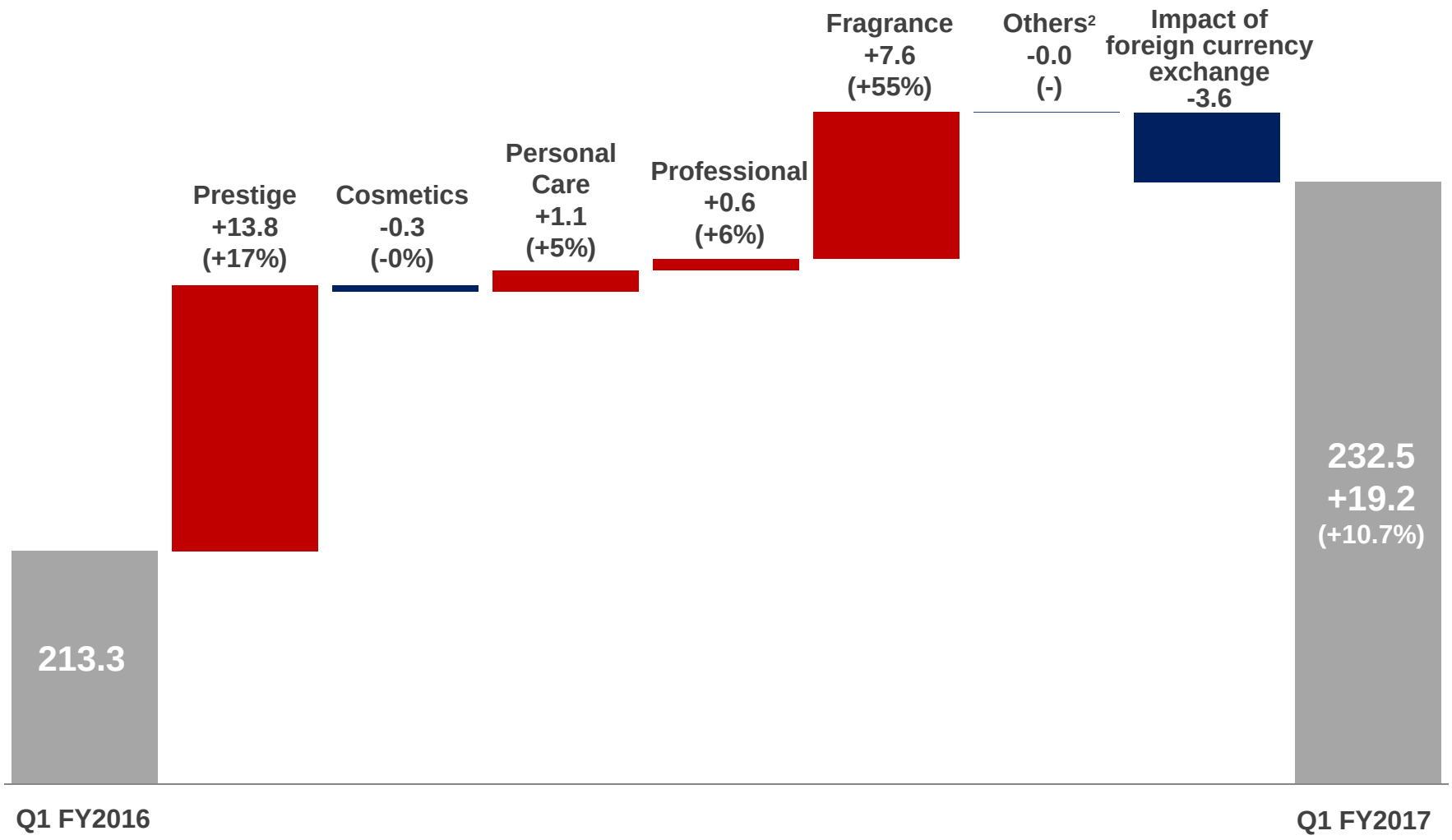
Supplemental Data 2
Q1 Results of Operating Income by Reportable Segment

(Billion yen)	FY2017 Q1	FY2017 Operating Profitability %	FY2016 Q1	FY2016 Operating Profitability %	YoY Change	YoY Change %
Japan	19.9	18.3	17.9	17.4	+2.1	+11.5
China	6.6	18.6	3.5	11.3	+3.1	+88.6
Asia Pacific	2.7	19.6	1.3	11.0	+1.4	+108.4
Americas	-3.7	-10.8	-0.4	-1.2	-3.3	–
EMEA	-2.1	-7.6	-0.0	-0.1	-2.1	–
Travel Retail	3.7	33.7	1.6	26.0	+2.1	+130.7
Professional	0.4	4.1	-0.3	-2.7	+0.7	–
Other	-2.1	-10.2	-1.9	-14.8	-0.2	–
Subtotal	25.4	9.6	21.6	9.4	+3.7	+17.2
Adjustments	-1.2	–	0.5	–	-1.7	–
Total	24.1	10.4	22.1	10.4	+2.0	+9.3

* Operating profitability is calculated using net sales including intersegment transactions.

Supplemental Data 3
Q1 Results of Sales by Business

Top: YoY change (billion yen)
Down: (YoY change in local currency)



1. The YoY change, and YoY change in local currency terms for each business were calculated based on the exchange rate that was estimated at the beginning of the fiscal year.
2. The figure for ”Others” includes the difference between the estimated rate and the actual rate.

Supplemental Data 4
Q1 Results of SG&A

(Billion yen)	FY2017 Q1			YoY Change %	YoY Change	Change Excluding Impact of Foreign Currency Exchange
		% of Net Sales	Change in % of Net Sales +: % decrease			
SG&A	153.9	66.2	+0.5	+9.7	+13.7	+16.1
Marketing Costs	76.7	33.0	-0.0	+8.8	+6.2	+7.6
Brand Development Cost and R&D Expenses	10.0	4.3	+0.7	+29.1	+2.3	+2.4
Personnel Expenses	30.5	13.1	-0.1	+9.0	+2.5	+2.9
Other Expenses	36.6	15.8	-0.1	+7.8	+2.7	+3.1

Supplemental Data 5
Consolidated Balance Sheets

(Billion yen)	Mar. 31, 2017	Change from Dec. 31, 2016	Excl. Foreign Currency Exchange	Foreign Currency Exchange
Total Current Assets	426.6	-5.3	+1.9	-7.2
Cash, Time Deposits and Short-Term Investments in Securities	112.5	-15.6	-13.7	-1.9
Notes & Accounts Receivable	145.7	+9.0	+11.4	-2.4
Inventories	122.6	+6.9	+9.1	-2.2
Total Fixed Assets	495.6	-7.1	+1.2	-8.3
Property, Plant and Equipment	156.8	+0.6	+2.0	-1.4
Intangible Assets	240.3	-6.0	+1.3	-7.4
Investments and Other Assets	98.5	-1.7	-2.1	+0.5
Total Assets	922.2	-12.4	+3.1	-15.5

(Billion yen)	Mar. 31, 2017	Change from Dec. 31, 2016	Excl. Foreign Currency Exchange	Foreign Currency Exchange
Total Liabilities	505.6	-15.1	-9.8	-5.3
Notes & Accounts Payable and Other Payables	112.0	-14.8	-13.7	-1.1
Interest-Bearing Debt	133.4	+12.9	+13.2	-0.4
Liability for Retirement Benefits	93.7	-0.8	-0.7	-0.0
Total Net Assets	416.6	+2.7	+12.9	-10.2
Shareholders' Equity	402.1	+10.1	–	–
Accumulated Other Comprehensive Income	-7.8	-8.7	–	–
Non-Controlling Interests	21.4	+1.3	–	–
Total Liabilities and Net Assets	922.2	-12.4	+3.1	-15.5

Exchange Rates:
Mar. 31, 2017: USD 1 = JPY 112.2, EUR 1= JPY 119.8, CNY 1 = JPY16.3
Dec. 31, 2016: USD 1= JPY 116.5, EUR 1 = JPY 122.7, CNY 1 = JPY 16.8

Equity Ratio: 42.8%
Interest-Bearing Debt Ratio: 24.3%
(Excluding long-term payables related to payment for the *Dolce&Gabbana* trademark right)

* Main line items only

Supplemental Data 6
Main Constituents of Old and New Segments

2016 Segments	Major Business Domains
Japan	Overall business in Japan, TR in Japan (Excluding BE and LM)
China	Overall business in China (Excluding BE, LM, and TR)
Asia Pacific	Overall business in Asia and Oceania excluding Japan and China (Excluding BE, LM, and TR)
Americas	Overall business in the Americas, BE, LM, and Zotos (Excluding TR)
EMEA	Overall business in EMEA and fragrances[2] (Excluding BE, LM, and TR)
Travel Retail	Overall business at duty-free shops worldwide outside Japan (Excluding TR in Fragrances Business[2])

2017 Segments	Major Business Domains
Japan	Overall business in Japan, TR in Japan (Excluding BE, LM, and PF)
China	Overall business in China (Excluding BE, LM, TR, and PF)
Asia Pacific	Overall business in Asia and Oceania excluding Japan and China (Excluding BE, LM, TR, and PF)
Americas	Overall business in the Americas (Excluding TR and PF)
EMEA	Overall business in EMEA (Excluding LM and TR)
Travel Retail	Overall business at duty-free shops all over the world outside Japan (Excluding TR in Fragrances Business[2])
Professional	Overall Professional Business all over the world
Other	Production Business, Frontier Science Business, restaurant operation, and others

* BE: Bare Escentuals LM: *Laura Mercier* and *RéVive* TR: Travel Retail Business PF: Professional Business EMEA: Europe, the Middle East, and Africa

1. Starting from the current fiscal year, the Professional Business, which was previously included in each business excluding EMEA and TR, is included in the Professional Business.
2. Fragrances Business exclude *SHISEIDO* fragrance and include *Dolce&Gabbana*, *ISSEY MIYAKE*, and *narciso rodriguez*.
3. Effective from the fiscal year ending December 31, 2017, *bareMinerals, NARS* etc. in the U.K. included in the “Americas Business” under the Company’s previous segment classification structure has been included in the “EMEA Business.”
   Effective from the fiscal year ending December 31, 2017, the Fragrance business in Latin America included in the “EMEA Business” under the Company’s previous segment classification structure has been included in the “Americas Business.”