

# President's Commentary on Strategy

**Business Growth Compatible with Sustainability to Become a Company with a Global Presence**



## 1 Please describe KOSÉ's business results for fiscal 2019 and the factors behind them, as well as your forecast for fiscal 2020.

Amid the COVID-19 pandemic, the KOSÉ Group has prioritized the safety of its customers, business partners and employees, and voluntarily refrained from in-store customer service activities in stages from the beginning of the pandemic. Employees work from home to the greatest extent possible, and when they must come to the office, we recommend staggered working hours. Through these and other measures, the entire Company has been working to prevent the spread of the virus.

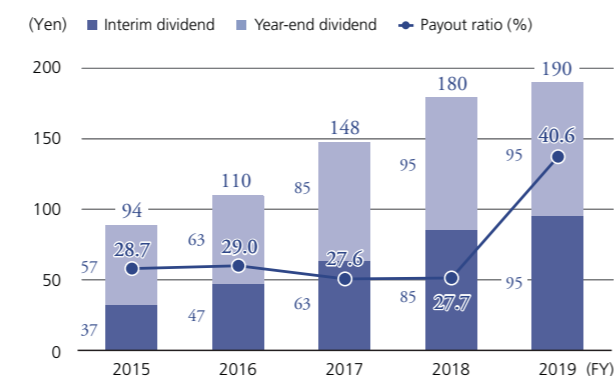
In fiscal 2019, growth continued at a high level in the Asian region, including China and South Korea, where sales remained strong from the beginning of the year. In Japan, however, growth was negative due to a decline in inbound sales, a drop in sales following last-minute demand ahead of an increase in the consumption tax rate, and the impact of the COVID-19 pandemic. As a result, both net sales and operating profit decreased.

In the cosmetics business, sales of *DECORTÉ*, *INFINITY* and *SEKKISEI MIYABI* in the high-prestige category grew, but sales for *ALBION CO., LTD.* and *Tarte, Inc.* experienced a downturn. In the cosmetaries business, despite strong performance by *STEPHEN KNOLL NEW YORK*, the *BIOLISS* hair care brand from KOSÉ Cosmeport Corp., the *GRACE ONE* aging care brand and other products, growth was negative due to factors including a decline in inbound sales of *CLEAR TURN* and the impact of the end of our licensing agreement for *RIMMEL*.

As for the business environment in fiscal 2020, we believe that the COVID-19-

related global economic downturn, with its deterioration in the employment and income environment, delays and cutbacks in business activities and decline in consumer sentiment, will continue for some time. In light of these circumstances, we forecast net sales of ¥286.6 billion and operating profit of ¥17.2 billion in fiscal 2020. We will announce our planned fiscal 2020 dividend when we determine that a reliable forecast is possible. In addition, to better promote globalization, we will align our accounting period with our overseas consolidated subsidiaries by changing the fiscal year-end from March 31 to December 31 starting from fiscal 2021. This will enable us to conduct integrated management with our global business with a greater sense of speed, and improve the transparency and quality of our management.

**Dividends/Payout Ratio**



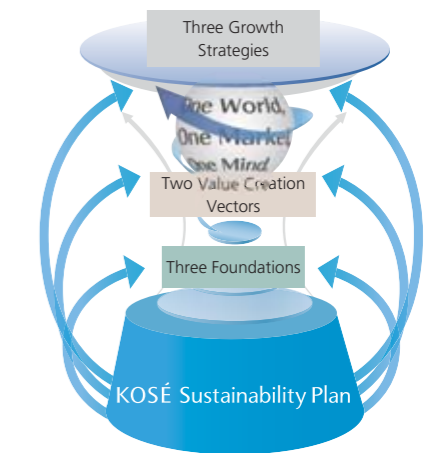
## 2 Shifting to a medium-to-long-term perspective, what course will KOSÉ take to achieve VISION 2026?

We at the KOSÉ Group have currently set forth a medium-to-long-term vision for ourselves of becoming a company with exceptional customer loyalty and a portfolio filled with extremely appealing brands. In working toward this vision, we aim to evolve into a company with a global presence. Specifically, we have established three growth strategies—accelerate globalization of brands, proactively develop unique products, and explore new growth domains—integrated with two value creation vectors at their core and three foundations to support them. These are our basic strategies. In them, we specify that we will also step up our efforts in the areas of digitalization, diversity and inclusion, and sustainability (see chart at right) in order to steadily move forward with these basic strategies from fiscal 2020.

In one of our two value creation vectors—use digital technology for more and better personal customer experiences—we reaffirm that we will further promote digitalization and accelerate the adoption of digital technology throughout the Group. In our three foundations, under our new KOSÉ Sustainability Plan (see page 19) we have made clear our intention to achieve business growth by increasing added value in a manner compatible with realizing a sustainable society through efforts unique to KOSÉ.

In anticipation of the accelerated globalization of our brands and the diversification our sales channels, we have reset the target overseas sales ratio from the previous 35% or more to 50% or more and the target e-commerce/travel retail sales ratio from 15% or more to 25% or more. Under VISION 2026, we have designated three phases as a roadmap. We are currently in Phase I, in which we are working to upgrade global brands and reinforce customer points of contact.

**Synergy between VISION 2026 and the KOSÉ Sustainability Plan**



One World, One Market, One Mind: Our slogan expressing our Company-wide borderless approach to markets from a global perspective

### Basic Strategies

#### Three Growth Strategies

- Accelerate globalization of brands
- Proactively develop unique products
- Explore new growth domains

#### Two Value Creation Vectors

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

#### Three Foundations

- Build a sound foundation for the Company's growth
- Promote diversity and inclusion
- Develop a sustainability strategy spanning the entire value chain

## 3 Please explain the key initiatives for achieving VISION 2026.

In order to achieve VISION 2026, it essential that we clarify our tasks and make thorough efforts to accelerate growth in light of recent sudden changes in the business environment. I will explain the progress and future direction of our four key initiatives.

The first key initiative is to speed up digital transformation. We will establish and reinforce our internal environment for

using digital technologies and establish KOSÉ's original beauty platform. On the Maison KOSÉ website, we have already posted makeup pictorials and recommended skin care items and made other enhancements to our high-quality beauty proposals and content that responds to customer needs. When stores were closed due to COVID-19, during the state of

emergency in Japan we swiftly began online sales of *DECORTE* and other brands that had not previously been sold in this channel. This received a very positive response. We intend to utilize digital technology to evolve our face-to-face approach to counseling, which we formerly took for granted, to prepare for new lifestyles that people may have to adopt going forward. At our Maison KOSÉ concept store in Ginza, Tokyo, which opened in December 2019, we plan to offer unique services that meet diverse needs as we explore the potential of next-generation beauty experiences through new types of communication that merge the digital world with real in-store experiences, including collaboration with external resources.

The second key initiative is to fully utilize global synergies. After addressing challenges at ALBION CO., LTD., Tarte, Inc. and KOSÉ Cosmeport Corp., we will work to achieve synergies from the sharing of management resources and information to make full use of each company's strengths. ALBION will build a stronger organization for overseas expansion and step up sales on Tmall as a member of the KOSÉ Group. Tarte will continue marketing activities focused on the brand's core identity while enhancing synergies with KOSÉ's strengths in manufacturing. KOSÉ Cosmeport will focus resources on making *softymo* and

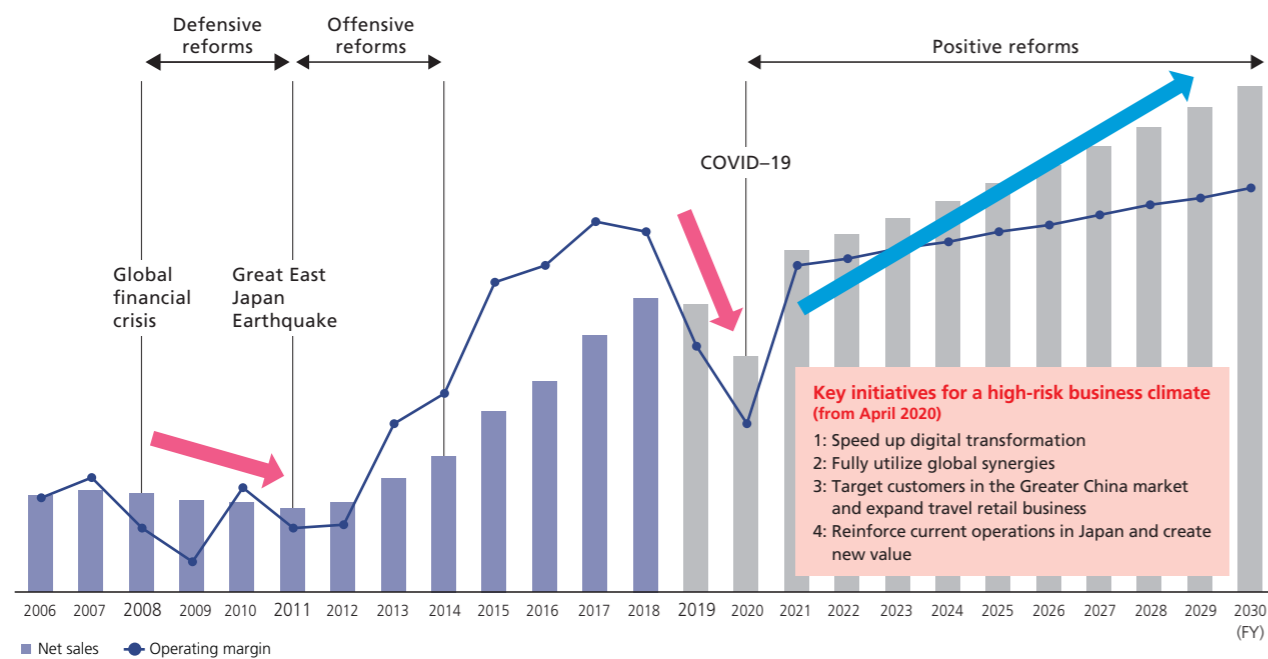
*SUNCUT* its next flagship brands after *CLEAR TURN*, and will strengthen sales activities in China, which it will use as the base for establishing its brands in the Asian market.

As our third initiative, we will target customers in the Greater China market, which is driving the Asian region, and strengthen and expand the travel retail business. Sales in China remain strong. We will add to our current operations in Beijing and Shanghai by accelerating the opening of new bases, including directly managed stores, in southern China, which has excellent growth prospects. We will enhance our online and offline initiatives, leveraging the advantages of both. In the travel retail business, we will accelerate alliances with new business partners and expansion into new regions, mainly in South Korea and China, where business is brisk.

Our fourth key initiative is to reinforce current operations in Japan and create new value. We will reorganize our existing business in Japan to improve profitability and build a more powerful sales infrastructure. We will also make our brand rollout methods more uniform across channels, in ways such as adding more KOSÉ global sales counters, mainly at *GMSs*,<sup>1</sup> and pursue unique value through cooperation with external partners.

1. General merchandise store

### Applying Experience to Promote Reforms



## 4

### Please tell us about the new KOSÉ Sustainability Plan.

The social environment in which we find ourselves at present is changing dramatically. Aside from the COVID-19 pandemic, we are faced with challenges including globalization, changing demographics, global warming due to climate change, and the depletion of natural resources. Even before "sustainability" and "ESG"<sup>2</sup> became common topics, the KOSÉ Group was conducting its business activities with a strong awareness of contributing to society and preserving the global environment. It is more important than ever for the KOSÉ Group to be constantly aware of its relationships with all its stakeholders, including the global environment, which is home to all living things, and the next generation. With this in mind, in April 2020 we announced the KOSÉ Sustainability Plan<sup>3</sup> with the aim of driving business growth while helping to achieve a sustainable society.

Under the Sustainability Plan, we will promote six activity themes (see pages 30-38) broadly divided into themes for People and themes for the Earth. These incorporate our strong commitment as a company that uses all the wisdom it possesses to create beauty and be of service to people and to our

precious Earth. The activity themes are linked with the SDGs<sup>4</sup> adopted by the United Nations, and through their Group-wide promotion we will contribute to achieving the SDGs.

ESG-related themes are an essential element that companies must address as a top management priority. For cosmetics, which consumers use on a daily basis, it is particularly important to offer value through a sense of emotional satisfaction beyond the tangible value of a physical product. For the KOSÉ Group, taking the perspective of ESG is a key factor in providing that value. Supporting beauty from within and happy, healthy lives for customers through beauty- and lifestyle-related proposals is the very essence of the KOSÉ Group's business and its ESG initiatives. We will further accelerate the KOSÉ Group's unique ESG initiatives in accordance with the KOSÉ Sustainability Plan.

2. The idea that corporate management and growth depend on consideration of environment, social and governance issues  
 3. See pages 26-29 for details of the KOSÉ Sustainability Plan.  
 4. Sustainable Development Goals

## 5

### What is your message to stakeholders about the growth of the KOSÉ Group going forward?

The company with a global presence that the KOSÉ Group aims to become is a company that uses foresight to constantly create innovative value. It is a company with exceptional customer loyalty that remains the choice of stakeholders worldwide due to its dedication to being a source of beauty for everyone. As a member of the global community, we intend to do our part by applying the wisdom we have gained from creating beauty utilizing our three strengths—unique brand marketing, research and development, and commitment to quality—to helping improve society and the global environment. To that end, we will continue to improve ourselves as a company with diverse brands and human resources that can succeed worldwide.

COVID-19 has had a profound impact on society as a whole. The KOSÉ Group has turned adversity into an opportunity for growth during challenging times in the past, such as the global financial crisis in 2008 and the Great East Japan Earthquake in 2011. We intend to overcome current challenges by also using them as an opportunity to transform ourselves. Moreover, by continuing to take on new challenges beyond existing frameworks without sticking to the path we have followed in the past, and by proposing new value to customers, we will help to create a happy society. We sincerely request your continued support.

# Value Creation by the KOSÉ Group

# ALBION



One of the diverse brands in the KOSÉ Group, *ALBION* is a leader in the high-prestige category. From the outset, *ALBION*'s unique approach has built strong engagement with customers through reliability and enhanced brand value. Focusing on uniqueness, *ALBION* creates premium cosmetics with true value.

## 1 ALBION's Uniqueness and Strengths

### Pride as Japan's First Premium Cosmetics Manufacturer and a Spirit of Challenge Lead to Uniqueness

ALBION CO., LTD. was established in 1956 to provide customers with premium cosmetics, which did not exist in Japan at the time. Our origins were in skin care, and we have continued working to create translucent and supple skin. The highly original *ALBION* products resulting from these efforts have captivated many customers, building considerable engagement.

We create value under our basic philosophy to "Focus on the genuine in spreading wonderful emotion, and bonds of trust all over the world as a leading manufacturer of premium cosmetics." To develop highly unique products, we use original ideas unconstrained by conventional wisdom. Using cutting-edge technologies, we then give these ideas form to create inspiring cosmetics. For example, we launched *FLORA DRIP* essence in September 2019 after nearly 10 years in development that started with in-house cultivation of plants as candidate raw materials at our Shirakami Laboratory in Shirakami-Sanchi, a mountainous World Heritage site with one of the world's largest old-growth habitats of Siebold's beech. Yet another example is *CHIFFON* hybrid foundation, which originated from a female developer's seemingly obvious idea of creating a product that offers both the ease of use of a powder foundation and the high-quality finish of face powder over liquid foundation. Starting from the initial idea, it took seven years of repeated trial and error to overcome difficulties to debut this product that many women had long desired. *ALBION* cosmetics are developed from a long-term perspective. We do not chase after trends or copy other companies because we are committed to our founder's focus on the genuine.

*ALBION*'s approach to retailing is also unique. Our mission is to amaze and inspire customers far beyond their expectations through high-quality premium cosmetics and customer service that provide unique value. To fulfill this mission, *ALBION* sales are therefore limited to specialty cosmetics stores and department stores, where we can provide one-on-one customer service and meticulous counseling to propose the best cosmetics for each customer.



## 2 The Foundation Supporting Our Strengths

### ALBION's Strengths: Bases That Create Unique Value through Human Resources Who Can Utilize Cutting-Edge Technologies

*ALBION*'s uniqueness and strengths come from its employees, and the business bases that maximize their creativity and skills. Among these bases, the Shirakami Laboratory is representative of *ALBION*'s uniqueness. There, in an environment of fertile soil, clean air and pure water, we organically cultivate plants as candidate raw materials for cosmetics. In addition to researching the effectiveness of the ingredients, the Shirakami Laboratory is responsible for all subsequent stages from washing and processing to shipping harvested plants. In April 2020, *ALBION* renewed *IGNIS*, a brand derived from plants grown in such an environment, and used this renewal as an opportunity to designate the Shirakami Laboratory as the brand's manufacturer and seller. This is another indication of our clear pride in and sense of responsibility regarding these plants.

Maintaining high quality and consideration for the environment in production are also very important. The Kumagaya Factory has introduced cosmetics GMP\* for high-level management of all cosmetics manufacturing processes. Moreover, an in-house purified water system sterilizes and filters all of the water used in the factory. It is then used for heat exchange and circulated throughout the factory around the clock, maintaining a level of purity required for use in pharmaceuticals.

Dealing conscientiously with every customer is an important skill that we must cultivate in our human resources. This skill requires not only a high level of product knowledge and competence, but also empathy, insight and attentiveness. To provide this training, in 1958 we opened the *ALBION* School, the forerunner of the current *ALBION* Shirokane Training Center, which was completed in 2007. This training center is a base where the people who deliver *ALBION* products directly to customers, such as Beauty Consultants and cosmetics specialty store staff, come together from throughout Japan to learn and refine their customer service skills. To cultivate human resources who are suitable for handling prestige cosmetics and trusted by customers, we conduct thorough training that includes etiquette and instilling a spirit of attentiveness. This training results in *ALBION*'s own unique style of heartfelt customer service. By having trainees learn together and by explaining the background of initiatives, product development and other matters to align their understanding, we strive to ensure that all employees feel affection for, pride in and fulfillment from *ALBION* products.

\* Cosmetics Good Manufacturing Practices: Technical standards for control of production and quality of cosmetics and other products

## 3 Outlook

### Establishing a Dominant Presence in Japan and Rolling Out the Same Meticulous Customer Service Globally

*ALBION*'s key value is the face-to-face service that reassures and convinces customers by allowing them to experience products on their own skin before deciding to purchase. In Japan, we have rolled out three new business formats as points of contact with customers—*ALBION* DRESSER, ATELIER *ALBION* and the most recent, *ALBION* PHILOSOPHY, launched in June 2020. Customer traffic is growing significantly. We also rebooted EX-PLAN, an area plan originally based on our engagement with existing cosmetics specialty stores, with the intention of rolling it out with a long-term perspective up to 2026.

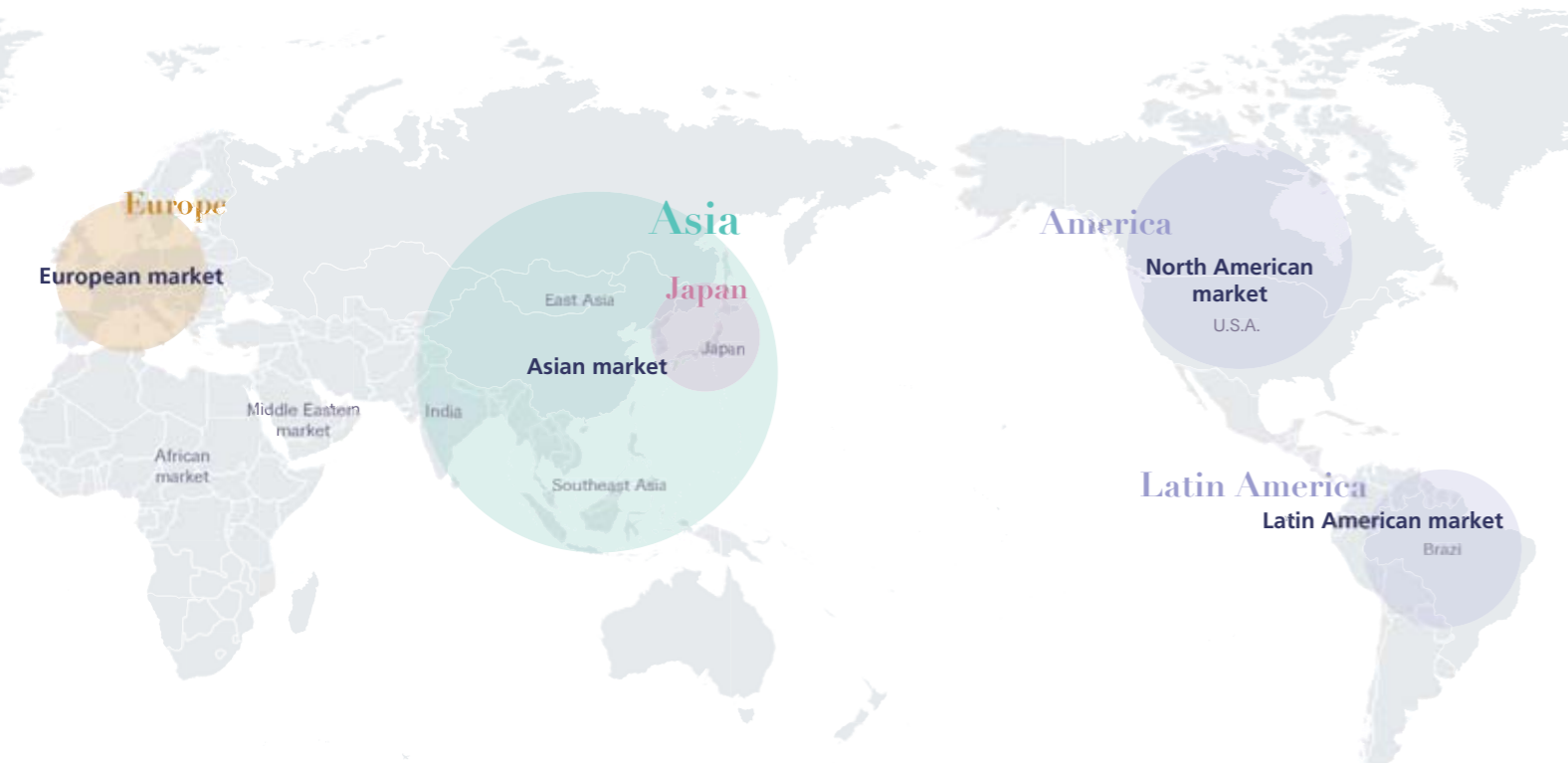
Overseas, we have begun sales on Tmall Global, one of China's largest online retail sites, as well as through the local Tmall site. *ALBION* is also gaining recognition from its presence in department stores in China and duty-free stores in South Korea, China, and Japan. Going forward, we plan to open a new-format outlet called *ALBION* GARDEN near Los Angeles as a foothold for increasing brand recognition in North America and Europe.

Rather than simply aiming to increase sales, we want to communicate the unique value of the *ALBION* brand. To do so, we will provide the same meticulous customer service that we offer in Japan to overseas stores, and will continue to focus on cultivating the human resources to achieve this goal.



# Strategies by Region

With its vision of evolving into a company with a global presence, the KOSÉ Group is promoting strategies to accelerate its global expansion, including improving its global brand presence and image, continuously building borderless relationships with customers and conducting marketing in sales channels that match the characteristics of each market. We will continue to promote the four key initiatives of our medium-to-long-term VISION 2026 to deploy global synergies as we work to be a source of beauty for everyone.



## Overview of Strategies by Region

	Fiscal 2019 Results	Main Initiatives in Fiscal 2020
Japan	<p><b>Promote KOSÉ beauty platform concept</b></p> <ul style="list-style-type: none"> <li>Opened Maison KOSÉ in Ginza, Tokyo, and promoted our unique KOSÉ beauty platform concept that merges the digital world and in-store experiences</li> </ul>	<p><b>Restructure business and organization to improve profitability</b></p> <ul style="list-style-type: none"> <li>Promote structural transformation to improve profitability</li> <li>Pursue unique value by combining the strengths of existing businesses with external resources (develop the beauty salon and pharmaceutical markets using open innovation)</li> </ul>
Asia	<p><b>Create borderless contacts with customers</b></p> <ul style="list-style-type: none"> <li>Expanded existing channels in each country</li> <li>Developed new sales channels including duty-free shops and online sales</li> </ul>	<p><b>Expand both online and offline sales channels</b></p> <ul style="list-style-type: none"> <li>Online: Roll out <i>DECORTÉ AQ</i>, <i>SEKKISEI MIYABI</i> and other products on Tmall and strengthen sales of <i>ALBION</i></li> <li>Offline: Expand the global rollout of travel retail</li> </ul>
North America & Others	<p><b>Cultivate customer base by expanding sales channels</b></p> <ul style="list-style-type: none"> <li>Increased sales of <i>DECORTÉ</i>, mainly in the department store channel</li> <li>Tarte, Inc. stepped up product rollouts in each category</li> </ul>	<p><b>Maintain and improve high market share by expanding the sales area</b></p> <ul style="list-style-type: none"> <li>Expand sales area by considering and promoting product rollouts through new Sephora outlets and other stores as each region returns to normal after COVID-19</li> <li>Make Tarte, Inc. a wholly owned subsidiary to strengthen the collaborative foundation</li> </ul>

## Japan

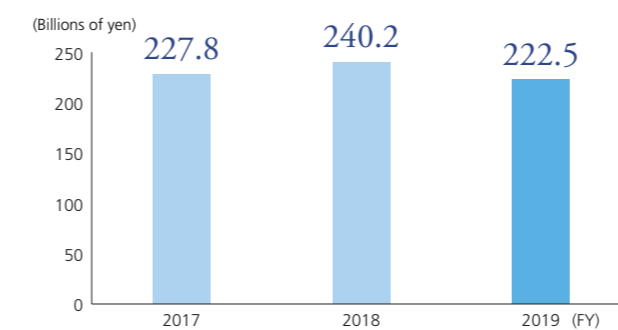
Although conditions remain severe due to the sudden change in the external environment due to the COVID-19 pandemic and other factors, we aim to reinforce current operations in Japan and create new value.

### Fiscal 2019 Review and Strategies Going Forward

In the Japanese market in fiscal 2019, inbound sales declined due to the expansion of sales channels in the Asian market and the impact of foreign exchange rates, among other factors. In addition, sales in major channels decreased due to the impact of heavy rainfall, typhoons and other natural disasters, as well as a drop in sales following last-minute demand ahead of a consumption tax rate increase, and the impact of the COVID-19 pandemic. Conditions remained severe for mainstay brands such as *DECORTÉ*, *ALBION* and *SEKKISEI*, while *INFINITY*, *ESPRIQUE* and hair care brands sold strongly.

From fiscal 2020, we are implementing a growth strategy of reinforcing current operations in Japan and creating new value as a key initiative of VISION 2026. Specifically, we will work to improve profitability through a decisive structural transformation

#### Sales in Japan



in areas such as strengthening the sales infrastructure and carrying out organizational changes. We will also open more KOSÉ global sales counters to enhance communication of our brand value.

A variety of collaborations to create new value are under way. These include cooperation on skin tone diagnosis with Panasonic Corporation, a nail printer with Casio Computer Co., Ltd., and research and development utilizing quantum computing with MDR Inc. We are also working to help achieve the SDGs through initiatives such as collaborations with Maruho Co., Ltd. to provide skin care cosmetics for consumers and with Sunshine Delight, Inc. on a project for UV countermeasures for children.

Also in 2020, *DECORTÉ* and *SEKKISEI* celebrate their 50th and 35th anniversaries, respectively, so we will step up communication of their brand value in Japan and overseas.



## Highlights

### First Renewal of *DECORTÉ AQ MELIORITY* in 10 Years

In September 2019, we renewed *AQ MELIORITY*, the *ne plus ultra* of the *DECORTÉ* lineup, for the first time in 10 years. Since its launch in 1970, *DECORTÉ* has been providing customers with products that soothe skin and spirit utilizing technology based on advanced dermatological research and the interaction among their effects on skin, feel and fragrance. *AQ MELIORITY* represents the quintessence of KOSÉ's technologies and the fruit of its pursuit of ultimate quality. With this renewal, we are providing a superlative product that relaxes and beautifies skin with a combination of leading-edge dermatological research and technology, beauty ingredients and sensuousness.



AQ MELIORITY

## Asia

The Asian market continues to grow, driven by online sales and the travel retail business. We will continue to enhance our brand strategies and the travel retail business for the Greater China market.

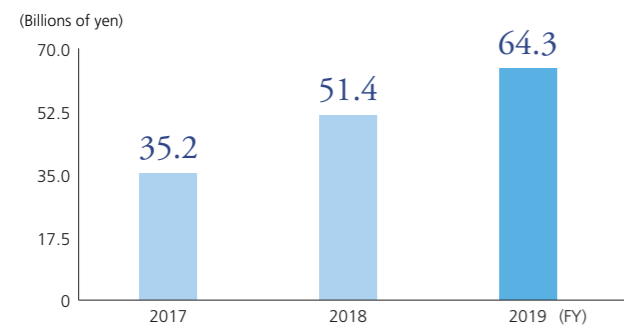
### Fiscal 2019 Review and Strategies Going Forward

In the Asian market in fiscal 2019, we focused on increasing the number of sales counters in stores and expanding online sales. In particular, we worked to create global and borderless connections with customers by strengthening linkage with the inbound market. As a result, growth remained strong.

In the Chinese market, the high-prestige category performed strongly as *DECORTÉ* continued to grow rapidly both online and offline, and *SEKKISEI MIYABI* received a positive response. In the South Korean market, growth of our duty-free sales outpaced the duty-free market, with *DECORTÉ* achieving particularly strong growth. On the other hand, sales in the Taiwan and Hong Kong markets decreased due to a decline in tourists from China, among other factors.

As a key initiative of VISION 2026, we will target the Greater China market and expand the travel retail business. In China, we will add to our current operations in Beijing and Shanghai by accelerating the opening of new bases, including directly managed stores, in southern China, which has excellent growth prospects.

#### Sales in Asia



To step up our digital strategy, we will invest heavily in online advertising and accelerate sales growth in the e-commerce business through cooperation with the Alibaba Group. In addition, we will work to increase the number of department store counters and accelerate the addition of *SEKKISEI* sales fixtures at Sephora outlets in China.

To reinforce the travel retail business, we have established KOSÉ Travel Retail Co., Ltd. to generate synergies with the duty-free business through duty-free stores, in-flight sales and other outlets, as well as with the in-flight and hotel amenity products business. For the time being, we plan to strengthen relationships with major duty-free retailers centered on South Korea and China, where sales are brisk, and to promote new alliances with global retailers. We are considering alliances with new business partners and expansion into new regions, and we will accelerate these efforts once the situation returns to normal after COVID-19.



SEKKISEI MIYABI ACTIRISE Golden Sleeping Mask



Duty-free counter at Haneda Airport



Directly managed store in Xiamen, China

In anticipation of further expansion into the travel retail market, we are rolling out counters that express a unified brand image and increasing the number of outlets centered on *DECORTÉ*, *SEKKISEI* and other brands.

## Highlights

### Making *INFINITY* a Flagship Brand at GMSs in Japan and Overseas

With its philosophy of “awakening the infinite beauty of the skin,” *INFINITY* is one of KOSÉ’s foremost high-value-added brands. It continues to provide clear results and new value based on highly effective, advanced dermatological research. To establish its position as a flagship brand, we have renewed our marketing strategy and are conducting measures to raise brand recognition. These measures include using brand ambassadors to communicate an “ageless” lifestyle and successively introducing KOSÉ global sales counters at GMSs\* in Japan and overseas that give pride of place to *INFINITY*.

\* General merchandise store



INFINITY



KOSÉ global sales counter

## North America & Others

Although sales decreased in the United States due to a prolonged slowdown in the prestige makeup category, Tarte, Inc. steadily increased its presence in Europe.

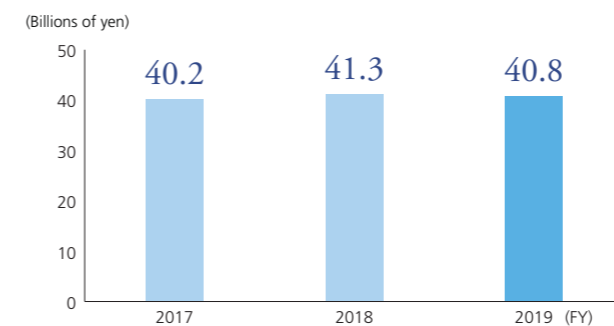
### Fiscal 2019 Review and Strategies Going Forward

In the North American market in fiscal 2019, we worked to expand our base of new customers. Efforts included development of the *DECORTÉ* brand, mainly in the department store channel, while Tarte, Inc. strengthened its product lineups in mascara, concealer and other categories, and launched products in the “clean beauty” category. However, sales decreased as conditions remained severe in the prestige makeup category in the United States. On the other hand, we made steady progress in dealing with major retailers in Europe and other markets. Tarte, Inc. started sales through Sephora outlets in Europe in France, Denmark, Sweden, Germany and Spain. In addition, we opened a *DECORTÉ* brand counter at Harrods luxury department store in the United Kingdom.

One of our strategies going forward will be to roll out Tarte, Inc. into more regions and increase cooperation and sharing of knowhow and management resources between KOSÉ and Tarte to deploy global synergies. By doing so, we will overcome challenges and grow further.

In particular, Tarte, Inc. will continue marketing activities focused on the brand’s core identity, and work to maintain and increase market share in its core categories. We consider Europe the priority area for expansion. Tarte, Inc. will successively roll out products at flagship stores, including Sephora, once the situation returns to normal after COVID-19.

#### Sales in North America & Others



New *DECORTÉ* brand counter in Harrods luxury department store in the United Kingdom