

Interview with the President



Kazutoshi Kobayashi
Representative Director and President

K. Kobayashi

We will steadily implement VISION 2026 to increase KOSÉ's global presence.

Q1 What were KOSÉ's business results for fiscal 2018 and the factors behind them?

Japan and Asia drove growth in fiscal 2018 as we reached record highs for net sales and operating profit for the sixth and fifth consecutive years, respectively.

In fiscal 2018, we started VISION 2026 and steadily implemented its strategies, pushing forward toward our goal of evolving into a company with a global presence. In terms of our business results, strong sales in Japan and Asia resulted in record highs for net sales, operating profit and every other level of profit.

In the cosmetics business, *DECORTÉ* posted record sales in the high-prestige category in Japan and overseas, and *ALBION CO., LTD.* and *Tarte, Inc.* performed steadily. In the prestige category, sales of *ONE BY KOSÉ*, a brand featuring unique products with outstanding efficiency that perform specific beauty care functions, grew strongly in Japan, and we worked to cultivate *LECHÉRI*, a new skin care brand in the mid-price range, and other products. In the cosmetaries category, strong sellers included the *SUNCUT* sunscreen brand and *SALON STYLE BIOLISS* botanical hair care products. Other contributors to sales growth included the *VISÉE* makeup brand, the *STEPHEN KNOLL NEW YORK* hair care brand and the *NAIL HOLIC* nail care brand.

By region, performance was strong in Japan, where we had success with our strategy of increasing points of contact with new customers across brands and distribution channels.

Overseas, performance in Asia was driven by China, where e-commerce transactions grew notably, and South Korea, where sales were strong in the duty-free channel. The overseas sales ratio, including North America and Europe, increased to 27.9%.

Q2 Please share your thoughts on VISION 2026. What are its main points?

Continuing our global and borderless growth without becoming complacent with our good performance will be key.

We achieved substantial growth under VISION 2020, our previous medium-term management plan. We steadily achieved our goals of a V-shaped turnaround and global brand development, and reached our fiscal 2020 target of ¥300 billion in net sales three years ahead of schedule.

On the other hand, despite the strong growth of our business results, we have still not reached a level we are satisfied with in the global rankings for Premium Beauty and Personal Care (Euromonitor International), which KOSÉ uses as a metric from a global perspective. In a business environment where conditions are changing markedly, such as the spread of AI and IoT in recent years, we recognize the importance of further strengthening our initiatives to create value with ideas and methods that are not simply an extension of our past efforts. We will continue working to expand our market share in Japan and grow further overseas. Through global and borderless growth, we aim to evolve into a company with a global presence.

One key point for achieving this is craftsmanship that earns the support of customers around the world. Maintaining this support will require more than just reliability in terms of peace of mind and safety. Our global expansion will require adaptability that responds to various tastes and lifestyles around the world, as well as sustainability, which positions factors including environmental friendliness as added value in product quality. Regarding global adaptability, Tarte already designs its products with consideration not only of various tastes, customs and values, as



Tarte's 50 colors of liquid foundation allow customers to match their skin tones.



exemplified by its launch of liquid foundation in 50 colors, but also for different beliefs and religious backgrounds. Among our sustainability activities, we have been conducting our SAVE the BLUE project to protect coral reefs in Okinawa since 2009. From 2018, this has evolved into broader activities to protect our blue planet with the start of a winter campaign focused on forest conservation. These activities have expanded to a total of 10 countries and regions in Asia, and the United States. To contribute to achieving the Sustainable Development Goals (SDGs) advocated by the United Nations, we will use the elements of adaptability and sustainability in these ways as we strive for craftsmanship that adds value on a whole new level.

Another point is attracting new customers. Along with craftsmanship, we are promoting the acquisition of new customers from a global and borderless perspective, and I recognize that our current good business performance is the result of the effective organic linkage of both aspects. Because this virtuous cycle is continuing, I am not very concerned about the impact on inbound consumption (purchases by overseas visitors to Japan) from the e-commerce law¹ that went into effect in China in January 2019. Rather, the accelerating erosion of borders in the cosmetics market caused by digital technology is bringing us closer to customers we could not previously reach, and I consider it an opportunity to make better use of our strengths.

As we move toward fiscal 2026, which will mark the 80th anniversary of our founding, we will continue to work for world-class craftsmanship and new customer acquisition to raise our global presence. Under VISION 2026, we aim to achieve new quantitative targets: consolidated net sales of ¥500 billion, an overseas sales ratio of 35% or higher, and a ratio of sales from e-commerce and other new sales channels of 15% or higher by fiscal 2026.

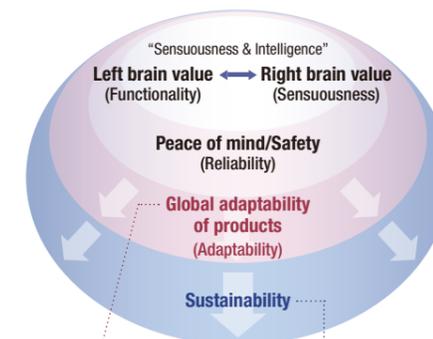
1. A comprehensive law related to electronic commerce transactions. It regulates resellers of products purchased overseas with the main purpose of regulating "third-party purchasing" by individuals.



SEKKISEI SAVE the BLUE campaign

Achieving World-Class Craftsmanship

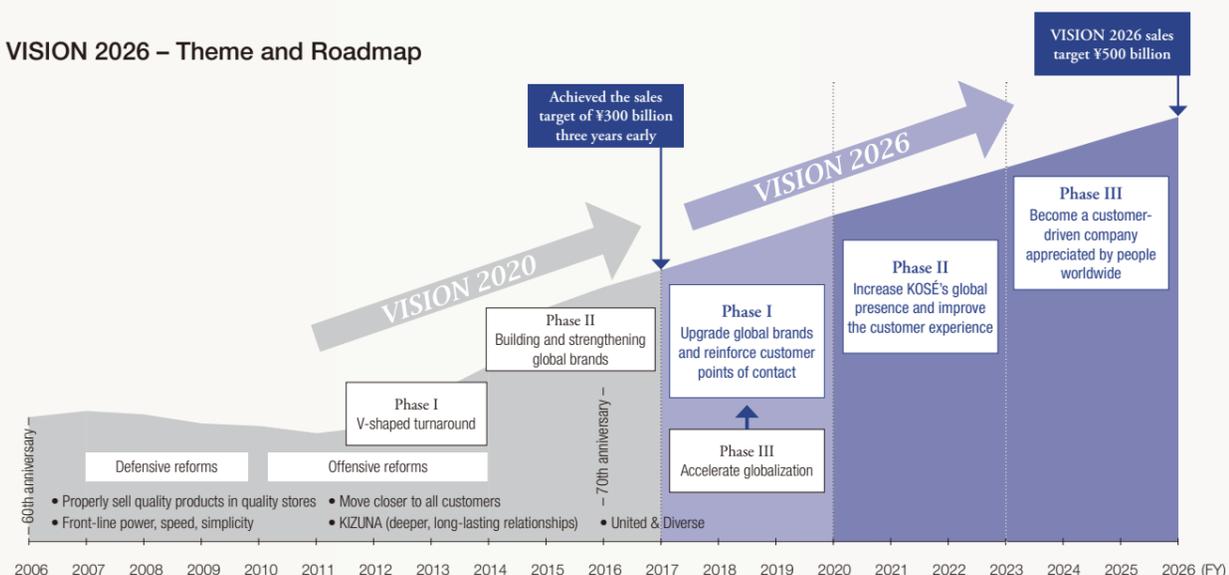
— For products that are successful worldwide —
"Monozukuri 2026"



- Product designs and ingredients
Medicinal properties, climate, tastes and habits, races, religions (such as halal products), lifestyles (such as products for vegetarians), etc.
- Sales channels and business customs
Distribution, counseling, self-selection, etc.
- Other

- Activities to lessen environmental impact
Ingredients and container materials
- Use of fair trade raw materials
- Measures to meet ethical consumption needs
- Other

VISION 2026 – Theme and Roadmap



Q3 How have the basic strategies of VISION 2026 been progressing?

We are advancing toward global and borderless growth by tirelessly striving to create unique value.

VISION 2026 details three growth strategies. The first is to "Accelerate globalization of brands." We are working to further enhance the global potential of the five brands² we have positioned as key global brands. A noteworthy development in fiscal 2018 was our global sales promotion of *DECORTÉ* and the start of sales at a directly managed store in France. As a result of these efforts, global sales of *DECORTÉ* grew 1.5 times compared with fiscal 2017 to over ¥68.0 billion. The second growth strategy is to "Proactively develop unique products." The completion of our Advanced Technology Laboratory in March 2019 was part of this strategy. There, we will create new value and innovate with a focus on establishing a structure for our craftsmanship, creating global value and developing new active ingredients. For the



DECORTÉ AQ base makeup series



JILL STUART Flora Notis, a brand that adds a floral fragrance to your lifestyle

third growth strategy, “Explore new growth domains,” we have established business alliances and joint ventures with three companies outside the KOSÉ Group in the beauty salon channel and the fields of dermatology products and quantum computing. These moves will enable us to expand into new growth areas and to strengthen our research and development using open innovation.

At the same time, we will pursue our two value creation vectors of “Aim for even more personal customer experiences” and “Focus on unique forms of value by utilizing external resources and technologies.” To establish an omnidirectional platform for connecting directly with customers, we intend to create new points of customer contact that differ from conventional brands and channels. We also intend to cooperate with the three partner companies I mentioned earlier to create new value and expand our areas of business.

To underpin these three growth strategies and two value creation vectors, we are proactively working to build a business foundation that is resilient to changes in market conditions. To bolster our production and supply structure, we decided to build a new production base, the Minami Alps Factory (provisional name), to meet growing demand. Operation is scheduled to begin in fiscal 2021. The factory will be environmentally friendly and have a comprehensive quality assurance system that conforms to ISO 22716 Good Manufacturing Practices for Cosmetics. By applying AI and IoT to digitalize and pass on the high level of craftsmanship accumulated in existing factories and through seamless sharing of development data from our research laboratories, we will establish the new factory as a base for craftsmanship that maximizes synergy among all our production bases. Through timely and reliable product supply, inventory and cost reductions, and other benefits that result, we will meet growing global demand for products that are made in Japan.

In addition, we are steadily enhancing our corporate governance in ways such as strengthening our risk management structure and increasing the number of external directors. In terms of our organizational structure, in addition to the existing matrix structure of our Marketing Division, which is broken down by business department and area, we changed our R&D organization in April 2019 in anticipation of the globalization of pharmaceutical affairs functions. To develop human resources and enhance working environments, we are promoting improvement in corporate productivity through employee health management, and results of our efforts include our selection by the Ministry of Economy, Trade and Industry as an Excellent Enterprise of Health and Productivity Management (White 500) for 2019.

In this way, underpinned by a strong business foundation that supports our corporate growth, we will achieve global and borderless growth by making full use of these resources as we tirelessly continue to create unique value.

2. DECORTÉ, SEKKISEI, JILL STUART, ADDICTION and CLEAR TURN

Q4 What is your stance on shareholder returns?

We will continue working to return more profits to our shareholders.

At KOSÉ, stable dividends are the basis of our returns to shareholders. Our policy is to return profits to our shareholders after giving consideration to securing internal funds for future business expansion and taking into account factors such as our financial condition, business results and the payout ratio.

The year-end dividend per share for fiscal 2018 was ¥95, a year-on-year increase of ¥10. Including the ¥85 interim dividend, total annual dividends per share were ¥180. For fiscal 2019, we plan to pay total annual dividends of ¥190 per share.

Q5 Please tell us your aspirations for the future and your message to stakeholders.

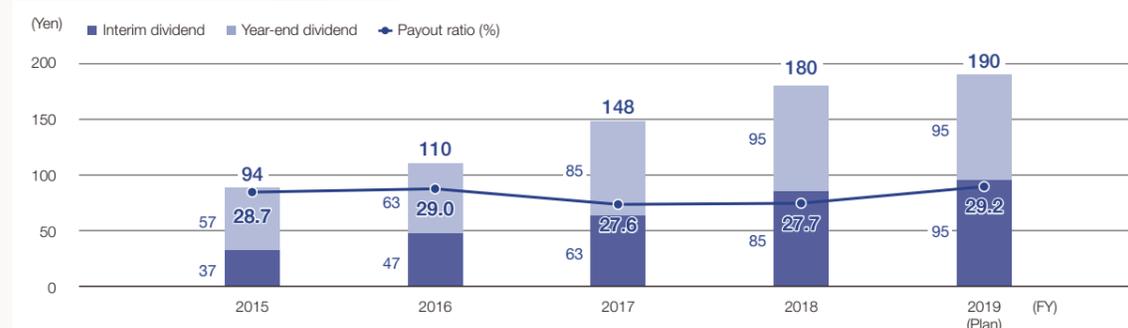
We will not become complacent with our current situation; we will proactively take on challenges that are more than just an extension of what we have done so far.

Our successful reforms to date have established a springboard for our global expansion. The very fact that we have entered this new stage of sustained strong performance means that we must resolutely conduct reforms that are more than just an extension of what we have done so far. We will not become complacent with our current situation; we will proactively take on challenges and continue to create new value through ceaseless efforts. In doing so, our vision is to become a company with diverse brands and human resources that can succeed worldwide, a company that constantly attracts more customers and is a place where people are proud to work, a company that uses foresight for the constant creation of innovative value, and a company dedicated to being a source of beauty for everyone. You can expect great things from KOSÉ, and we look forward to your continuing support.



Promotional rollouts for DECORTÉ have been conducted globally.

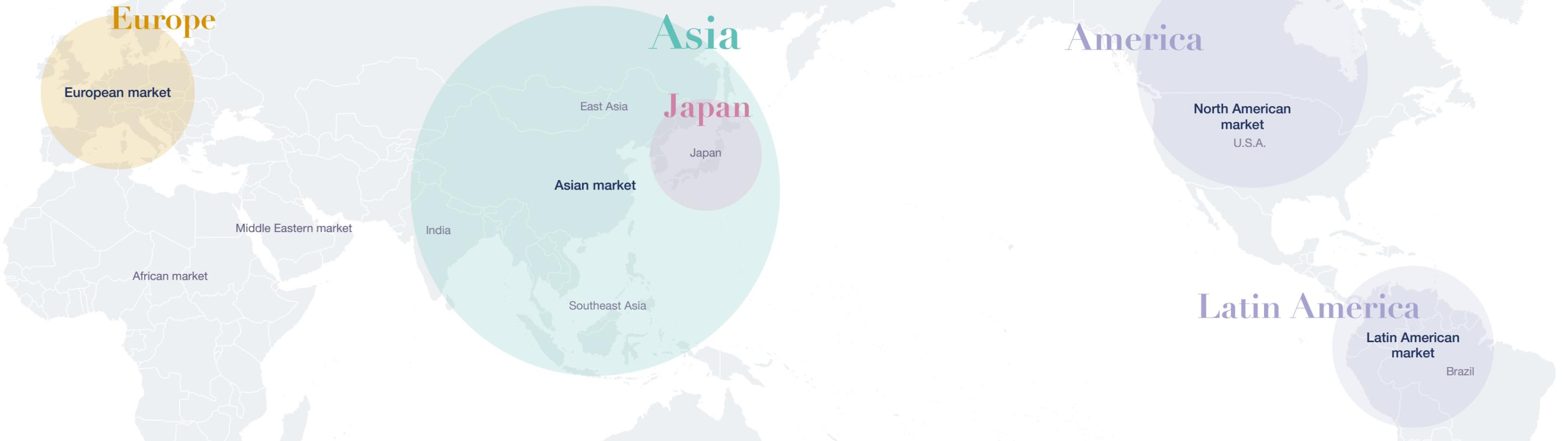
Dividends/Payout Ratio



Our Global Presence

Strategies by Region

KOSÉ is accelerating its worldwide expansion with the aim of evolving into a company with a global presence. By setting strategies that focus on the needs of each region, we will continue to be a source of beauty for everyone.



Global

Build stronger presence and images for brands globally

Further reinforce brands in the prestige market category by using carefully selected and focused investments

Borderless

Constantly increase interaction and deepen ties with borderless customers

Upgrade marketing strategies that target customers in Greater China, a region with strong consumer spending and a significant influence on other markets

Brand Strategies Driving Global Growth

Main Sales Regions: J Japan A Asia U North America & Others E Europe

<p>DECORTÉ</p> <p>J A U E</p> <ul style="list-style-type: none"> Expand share of in-store sales in Japan Firmly establish the brand in Asia Increase activities in North America and Italy 	<p>CLEAR TURN クリアターン</p> <p>J A</p> <ul style="list-style-type: none"> Establish a dominant position in Japan's self-selection cosmetics market Target opportunities in other countries where there are good prospects for success
<p>雪肌精 SEKKISEI</p> <p>J A U E</p> <ul style="list-style-type: none"> Aim for rapid sales growth in East Asia Increase global promotional activities 	<p>ALBION</p> <p>J A U E</p> <ul style="list-style-type: none"> Enter new business categories and attract borderless customers
<p>JILLSTUART</p> <p>J A U</p> <ul style="list-style-type: none"> Make the brand more powerful on a global scale Strengthen and expand travel retail operations and measures to add new distribution channels 	<p>tarte high-performance naturals</p> <p>A U E</p> <ul style="list-style-type: none"> Conduct digital marketing and strengthen measures in each sales channel
<p>ADDICTION</p> <p>J A</p> <ul style="list-style-type: none"> Position as Asia's leading brand for makeup artists Quickly start selling products in other countries and establish the brand in overseas markets 	

Japan



At KOSÉ, we have made getting closer to all our customers a theme of our corporate activities, and we are working to increase venues and opportunities for our employees, including those at our head office, to interact with customers. By using the know-how cultivated to attract customers for each brand, we are steadily increasing contact points with new customers. Specifically, each year since 2013 we have held the KOSÉ Beauty Festa in various locations, going beyond the boundaries of distribution channels to bring all of our brands together under one roof.

Capturing the inbound demand of overseas visitors to Japan is also important. Initially, overseas visitors to Japan were known for binge shopping—buying desired items in large quantities—but recently demand is strong for detailed counseling before purchasing, and counseling brands such as DECORTÉ and ALBION are extremely popular. Factors such as the increase in the department stores in China and the start of online sales are creating a virtuous cycle in which visitors to Japan continue to buy KOSÉ products after returning to their home countries.

Strategies for Major Brands and Group Companies

DECORTÉ

Created in 1970, DECORTÉ embodies the ambition of KOSÉ's founder to deliver the highest quality cosmetics with the best service to women who seek sophisticated beauty. We have continued to bring together leading-edge technologies to launch products with a commitment to the highest quality, but when the eye highlighter we launched in 2016 became a hit product, it triggered widespread support among a broad range of customers. For the new series of base makeup products launched in 2018, we held hands-on events at six locations throughout Japan, leveraging our know-how from the KOSÉ

Beauty Festa. More than half of the customers who received counseling or touch-up services at the events later visited stores that sell DECORTÉ. By using this strategy of stimulating interest at events to attract customers to specialty stores, we will continue to increase contact points with new customers.

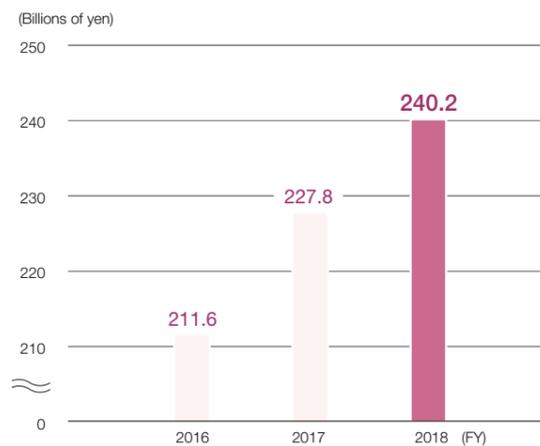
ALBION

Under the theme of encounters with new customers, the core of the ALBION Group's strategy is to attract new customers using ideas and methods that break from convention.

As new business formats in Japan, we are rolling out ALBION DRESSER and ATELIER ALBION stores that sell only the ALBION brand. At DRESSER stores, which are located in high-end commercial districts, sales have been steady as a result of encounters with new customers. Following DRESSER stores, ATELIER stores, for which location is more flexible, began opening in fiscal 2018. Aiming to open a total of 100 ATELIER stores by fiscal 2026, we will enhance our strategies for both tangible aspects such as store facilities and intangible aspects such as service to strengthen new customer attraction.

In addition, in autumn 2018 we held the ALBION Foundation Fes for a total of five days in Tokyo, Nagoya and Osaka. The success of the event demonstrated the high level of interest in ALBION. In 2019, which is the 45th anniversary of the creation of skin conditioners, we will attract new customers by emphasizing engagement at events and stores.

Sales in Japan



DECORTÉ base makeup series



ALBION DRESSER store



Advanced iP.Shot from DECORTÉ

THE WRINKLESS from ONE BY KOSÉ

Topics

Launch of Medicated Wrinkle Reducing Creams from DECORTÉ and ONE BY KOSÉ

Needs for anti-aging skin care are high, on par with moisturizing and skin-brightening, and the market is growing rapidly. In response, KOSÉ launched the quasi-drug products Advanced iP.Shot from DECORTÉ in September 2018 and THE WRINKLESS from ONE BY KOSÉ in October 2018. The products contain a mixture of original ingredients and niacinamide, a substance that reduces wrinkles by acting on both the dermis and the epidermis. Together with the high-moisturizing anti-aging skin care brand LECHÉRI, these products are effective against a wide range of adult skin concerns.

Asia



KOSÉ's first entry into overseas markets was in Hong Kong in 1968. In the 1970s and 1980s, we also expanded into Malaysia, Thailand, Taiwan and China. We have put down roots in each location by steadily conducting counseling sales, a method that is unique to Japan, to establish a foundation in the Asian market.

In China, for example, we established a joint venture in China in 1987 to manufacture and sell low-priced products. Although we experienced some difficulties from excessive store openings due to business expansion driven by China's economic growth, we overcame those problems through structural reform of production and sales. Our business in China is growing rapidly.

KOSÉ's Growth in China



Asia

Strategies for Major Brands and Group Companies

DECORTÉ

DECORTÉ's first launch in Asia was in Taiwan in 1997, and it has also been sold in China since 2009. In China, counseling sales at department stores and treatments using techniques perfected in Japan have gained support among affluent customers. In addition, to reach the Millennial generation, which will be a major customer group in the future, we opened a store in 2018 on Tmall,* one of China's largest B2C online retail websites, selling mainly products that are popular among Chinese visitors to Japan. In addition, new channels in Asia, such as inflight sales on international routes and duty-free shops in South Korea, are contributing to sales growth. We will continue expanding DECORTÉ sales in the Asian cosmetics market through optimal use of sales channels to drive overall growth for KOSÉ.

ALBION

The ALBION Group has stepped up its overseas expansion since 2017, and in some Hong Kong and Singapore department stores, its counters account for the top sales. On the other hand, raising brand awareness is an issue in China and South Korea. Therefore, in China, while conducting a

strategy of steady customer attraction in department stores, the ALBION Group also began sales on Tmall Global* in 2018. Analysis of customer attributes and tastes for use in publicizing brand information is improving recognition. In addition to opening a Lotte duty-free shop in South Korea, the ALBION Group opened a duty-free shop at Haneda International Airport in Japan in 2018 to meet inbound demand from Asia. In Taiwan, the aim is to get closer to customers by expanding into department stores through direct negotiations, without going through a sales agent.

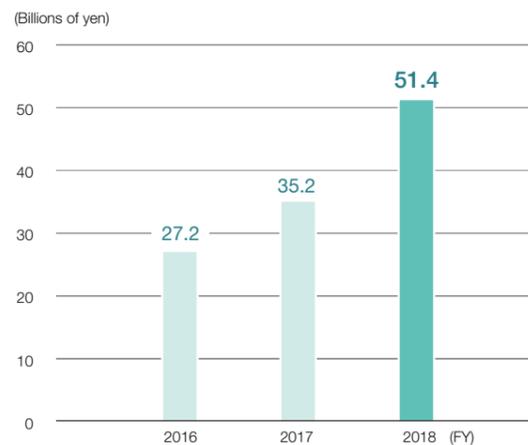
* One of the largest online sales platforms in China, operated by the Alibaba Group

SEKKISEI/JILL STUART/ADDICTION

For SEKKISEI, we have been establishing counters at department stores in Asian countries to develop the premium-priced SEKKISEI MYV (MIYAVI) into a next-generation global brand.

For JILL STUART and ADDICTION, we are working to increase global presence by leveraging various sales channels, including department stores, duty-free shops and inflight sales.

Sales in Asia (Excluding Japan)



Topics

KOSÉ Beauty Expo (China)

From September through November 2018, we held the KOSÉ Beauty Expo (China) in Guangzhou, Shanghai, and Chengdu, China. A total of more than 40,000 customers from China and other countries attended. One of our booths enabled attendees to experience the brand's image and a digital makeup simulation. Targeting the Millennial generation, we will continue to conduct strategic brand communication that combines the digital domain, including online retail sales, with real-life events.

North America & Others

Fiscal 2018
Net sales
¥41.2 billion

Fiscal 2026
Target CAGR
7%

Fiscal 2026
Target sales ratio
14%

KOSÉ's global expansion, which began in Asia, has made significant strides since 2012. In addition to debuts in the European countries of Italy, Germany, Denmark, the United Kingdom, France and Spain, in 2014 we made the U.S. company Tarte, Inc. a subsidiary with the aim of cultivating the North American market.

Strategies for Major Brands and Group Companies

DECORTÉ

DECORTÉ debuted in Europe in 2012 with the start of sales in Italy. Since 2016, we have opened counters in stores in the United States and Canada, starting with the venerable New York department store Saks Fifth Avenue.

Launched in 1970, DECORTÉ has a long history of offering the highest levels of quality and service. We intend to make this strength the core of our expansion, which will include rollouts into each country in Europe and use of the duty-free channel.

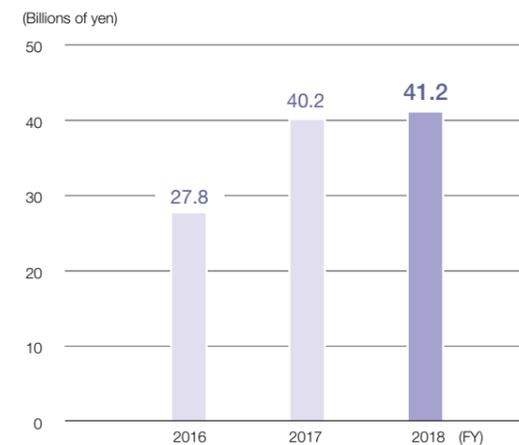
Tarte

Established in 1999 in the United States, Tarte, Inc. has grown by earning the support of women in their 20s and 30s. Under a brand concept of "high performance naturals," the company develops makeup and skin care products containing natural ingredients. Its main sales channels are cosmetics retailers

including Sephora and ULTA, online retailers and television shopping. Since KOSÉ made Tarte a subsidiary in 2014, the number of sales outlets has increased steadily, and by the start of fiscal 2018, sales had grown more than five-fold. Sales increased further in fiscal 2018 due to strong performance at ULTA, among other factors. Tarte will continue to provide products that meet customer needs.

In addition, Tarte began expanding into Europe in fiscal 2019, with steady results in France, where sales first started. By May 2019, sales had also begun in five other countries including Spain. The Tarte brand is a good example of global adaptability. Born in the United States, it has expanded its sales channels to 180 countries worldwide by responding to diverse tastes and lifestyles. KOSÉ will step up its efforts for craftsmanship that displays this global adaptability.

Sales in North America & Others



sugar rush™, launched by Tarte in February 2019

Enhancing Digital Marketing

Aiming to Provide True Satisfaction and New Value by Getting Closer to Customers



Even in the digital domain, we value person-to-person communication.

Makoto Fujii

Group Manager,
Digital Marketing Division

We will offer new value by combining our in-store and digital expertise.

Hiroshi Sugisaki

Manager, EC Promotion Section
Digital Marketing Division



Pursuing Customer Satisfaction by Adhering to Our Founding Belief

KOSÉ has been working to improve the value it offers customers in the digital domain. Efforts include operating online shopping websites for *JILL STUART*, *ADDICTION* and other brands, and sales through a Group company of the *MAIHADA* brand, which is exclusively a direct marketing brand.

We are making a digital shift in response to the rapid move in that direction in recent years, but we view this shift as essentially another way of getting “closer to our customers.” Using digital media, we can get a clear picture of the otherwise “invisible asset” of communication with our customers through their behavior history, enabling us to meet their needs to a greater degree than ever before. Since its founding, KOSÉ has worked to be a source of beauty for everyone based on a belief in making quality products that truly exceed the expectations of each customer, and offering those products with a personal touch. Even as we shift to digital technology, we will continue to pursue customer satisfaction that embodies this belief.

Combining Physical Stores and Digital Experiences to Fully Leverage New Value

To conduct a digital shift that retains KOSÉ's values, we will apply the expertise we have already cultivated in digitalization to other brands, and combine our expertise in in-store counseling, direct marketing, and online shopping website management.

To achieve this goal, we established the Digital Marketing Department in April 2018. Among its various areas of focus, this department develops systems and utilizes customer data to maximize online sales for the entire Group and to promote digitalization at stores, branches and other locations. It also uses open innovation and other means to develop new business models that leverage digital technologies, and conducts digital branding on social media and online shopping websites for strategic brands.

The department's first initiative in fiscal 2018 was to begin building a digital marketing platform. The initial goal is to meet increasingly diverse and sophisticated needs in Japan through integrated management of the customer purchasing information we have accumulated at physical stores and in the digital field,

including e-commerce. The second initiative was the Maison KOSÉ business, which combines a concept shop that brings together KOSÉ's diverse brands with its owned media.* The lineup of KOSÉ's major products allows customers to choose products that address their individual concerns, rather than by brand. We previously operated single-brand concept shops, but this is our first attempt at a concept shop that brings together numerous brands. We intend to continue our relationships of coexistence and co-prosperity with our existing business partners by sharing the information we obtain from this store. At the same time, we plan to continue building up our owned media, incorporating beauty articles while adding online shopping functions and increasing the number of brands handled. Counseling brands will also be presented on our website to help attract customers to physical stores. Furthermore, by analyzing data that tracks customer views, we will accurately grasp their needs to promptly respond to their requests at the concept shop.

* Owned media: Media such as self-published brochures and websites owned by a company for communication with consumers.

Striving to Create Unique KOSÉ Value for Customers Worldwide

We are now working to develop our owned media and establish a business model for experiencing it in the real world. We believe that combining in-store sales and digital media will enable us to pursue customer satisfaction head-on, so that we can be a source of beauty for more people. Although we are proceeding with a view toward a global rollout in the future, we do not think that our strategy for success in Japan will be applicable as is overseas. In localizing operations, language and other methods of communication change significantly. We will adapt the methods we established in Japan to each country or region with the aim of offering KOSÉ's unique new value to customers around the world.