

August 1, 2011
Shiseido Co., Ltd.

Q&A for the First Quarter of the Fiscal Year Ending March 31, 2012 (Summary)

Domestic business

Q) Are over-the-counter sales recovering?

A) Signs of a recovery in over-the-counter sales emerged in July. There are effective practices that do not depend on new products, especially proposals of existing items that make summer more comfortable, and those initiatives are beginning to raise sales.

Q) What do you expect over-the-counter sales will be in the second half?

A) We expect that sales will recover in the second half, but annual sales will decline. We are maintaining a cautious outlook.

Q) Are you going to make sufficient marketing outlays from the second quarter?

A) We are going to add ¥7 billion for domestic operations. We cut marketing costs until the previous fiscal year, but will return outlays to their former level. We will actively invest in marketing from the second quarter to prepare for a new business model from the next fiscal year.

Q) Could you explain the gap between over-the-counter sales and shipments?

A) Shipments rose 4.9% year on year in the three categories of cosmetics, while over-the-counter sales declined 9% to 10%. However, the substantial year-on-year increase in shipments was because of the special factor of low shipment levels in the previous fiscal year. Over-the-counter sales were larger than shipments in terms of value, and inventory at stores fell.

Q) You said that inventory at stores fell. How about stock months? Is that figure coming closer to the proper level?

A) The absolute level is declining, but stock months did not improve significantly because over-the-counter sales have been weak.

Overseas business

Q) Operating income, in particular, seems to have dropped in the first quarter. Are there any specific reasons?

A) Both net sales and operating income are usually low in all regions in the first quarter.

Q) Could you describe net sales at Bare Escentuals and net sales in the Americas excluding Bare Escentuals?

A) The year-on-year comparison of sales at Bare Escentuals was irregular, because the first quarter of the previous fiscal year was a little less than one month, while the first quarter of the fiscal year under review was three months. That said, sales at Bare Escentuals grew steadily, although it was single-digit growth. Sales in the Americas excluding sales at Bare Escentuals also grew steadily.

Q) How much of the operating income in the Americas was provided by Bare Escentuals?

A) We do not disclose operating income by company.

Q) Overseas sales from April to June that were announced said that net sales in the Americas remained unchanged. Why was that?

A) The sales growth rate slowed in the second quarter as a strong recovery after the crisis following Lehman's fall came to a halt, and sales were on a par with the year-ago level. However, sales in the first half posted a double-digit increase as planned. We revised the overseas sales forecast for the first half upward and the forecast for the second half downward, based on exchange rates. The yen was weaker on average than expected until June, but we expect the yen will be stronger than expected in the second half.

Q) Why did operating income decline in Asia and Oceania?

A) As you already know, we are investing aggressively in marketing, especially overseas. We have made heavy investments, particularly in China, since January. That was the main reason for the decline.

Q) Could you describe the situation in China in the first and second quarters? Is the increase

in marketing costs producing results?

A) Sales increased by more than 10% in China. The rate of increase remained roughly unchanged in the first quarter and second quarter. Looking at investment, of 190 global Shiseido counters, we are replacing old types with new counters one by one for a uniform image. However, these renovations will not produce results soon. We expect that revenues will lag behind expenses initially.

Results in the first quarter

Q) You changed the net income forecast for the first half because of tax. Could you explain that?

A) We posted a net loss because of higher tax. Since our annual income level declined, we were not able to post a sufficient tax reduction commensurate with the elimination of unrealized income. Considering the latest results for the first half, we expect that the tax expense will be more than initially expected.

Q) You revised domestic sales in the first half down ¥2 billion. Could you provide a breakdown?

A) We expect that sales in the Healthcare and Others divisions in the domestic business will be ¥2 billion lower than the initial forecast. We have changed the domestic sales forecast to a 3% fall in the first half and a 3% rise in the second half, down from a 2% decline in the first half and a 2% increase in the second half. However, we forecast annual sales in the three fields in cosmetics will slip 2% in the first half and will climb 2% in the second half as we initially anticipated. We expect that sales of the domestic subsidiary in the second quarter will decrease.