

KOSÉ Corporation

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Notice Regarding the Formulation of New Medium-to-Long-Term Vision

KOSÉ Corporation announced its new medium-to-long-term vision, “Vision for Lifelong Beauty —Milestone2030,” which states the future vision and growth strategy of the KOSÉ Group, as shown in the attached document.



Vision for Lifelong Beauty Partner —Milestone2030

November 11, 2024

Creating Beauty in a Sustainable World

KOSÉ Corporation

Introduction

1. How the Vision was Established
2. Our Vision for KOSÉ
3. Outline of Strategies
4. Growth Strategy
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Today's Main Messages

Develop with the Beauty Consortium Concept for consistent growth

KOSÉ has started studies for transition to a pure holding company structure in 2026, the 80th anniversary year. We will build a structure aimed at enhancing the group's competitiveness, increasing corporate value, and strengthening governance. This will enable us to expand diverse business models globally and enhance the value we deliver to customers.

Vision for Lifelong Beauty Partner – Milestone2030

KOSÉ has established this medium- to long-term vision as a roadmap for realizing Our Vision in the future. Embracing each other, we color our lives with beautiful moments as a lifelong beauty partner to people around the world. We aim to achieve consistent growth and increase corporate value through our activities.

Completion of structural reforms and rebuilding an infrastructure and shift to a continuous and sound growth spiral

We will establish KOSÉ's solid business fundamentals in Japan and prominent position in its markets to create reliable growth resources and these resources will be invested in sustainable growth. For growth on a global scale, our central stance is the optimization of business operations in each region by no longer using the approach of doing everything on our own. We will promote many activities outside Japan concerning the shift to local marketing and manufacturing operations and the use of M&A and alliances.

Another priority is more measures for providing value that is not bound by gender and generation barriers as future growth domains for KOSÉ.

Substantial investment in growth and improvement of management efficiency to become a more powerful company

Establish the sound infrastructure needed for growth on a global scale and transformation to a resilient business structure while increasing investments for growth.

Start using the ROIC for the clear visualization of progress involving issues and goals to achieve efficient operation.

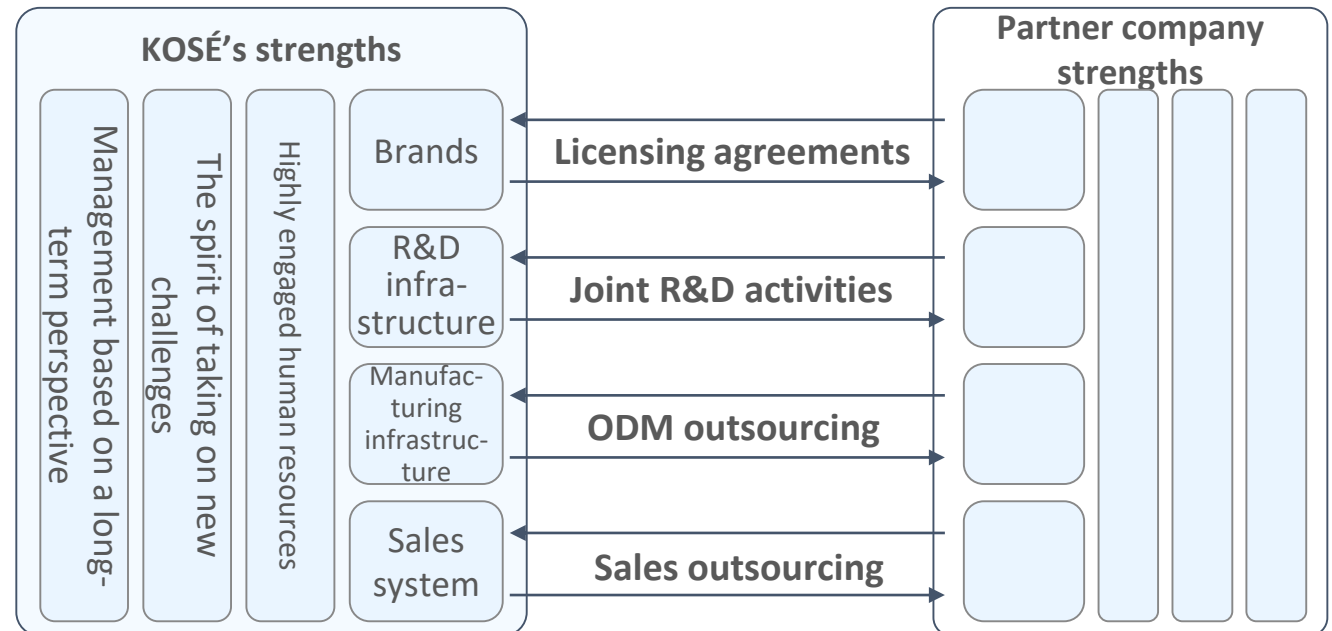
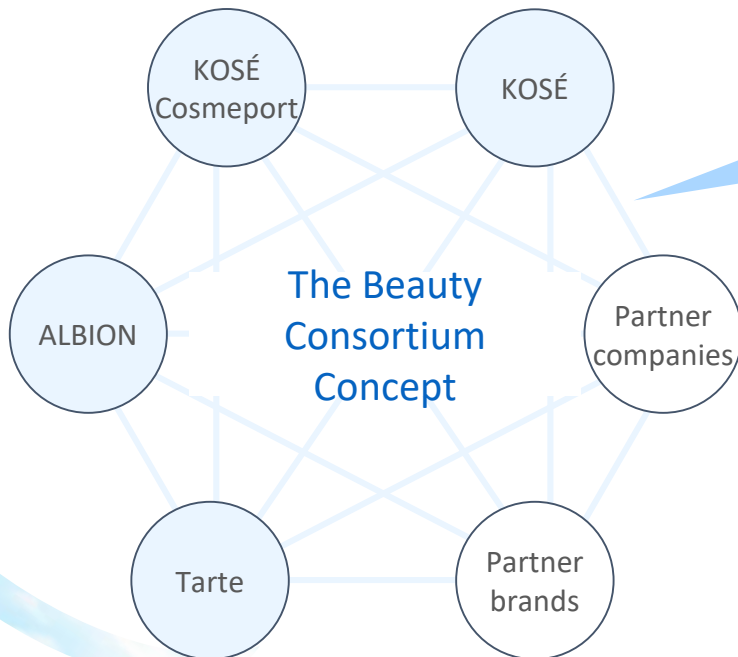
The KOSÉ Group Strategy

- Started studies for transition to a pure holding company structure in 2026, our 80th anniversary, in order to achieve the Beauty Consortium Concept with the goal of consistent growth

The Beauty Consortium Concept

Aim to achieve consistent growth and enhance corporate value through mutual collaboration with companies and brands that share the same will as the KOSÉ Group to be a lifelong partner for people worldwide, leveraging each other's strengths.

- Establish a management framework that maximizes group synergies, accelerates decision-making, and enables the strategic and efficient allocation of management resources
- Expand diverse business models on a global scale and accelerate the growth of value provided in the wellbeing domain



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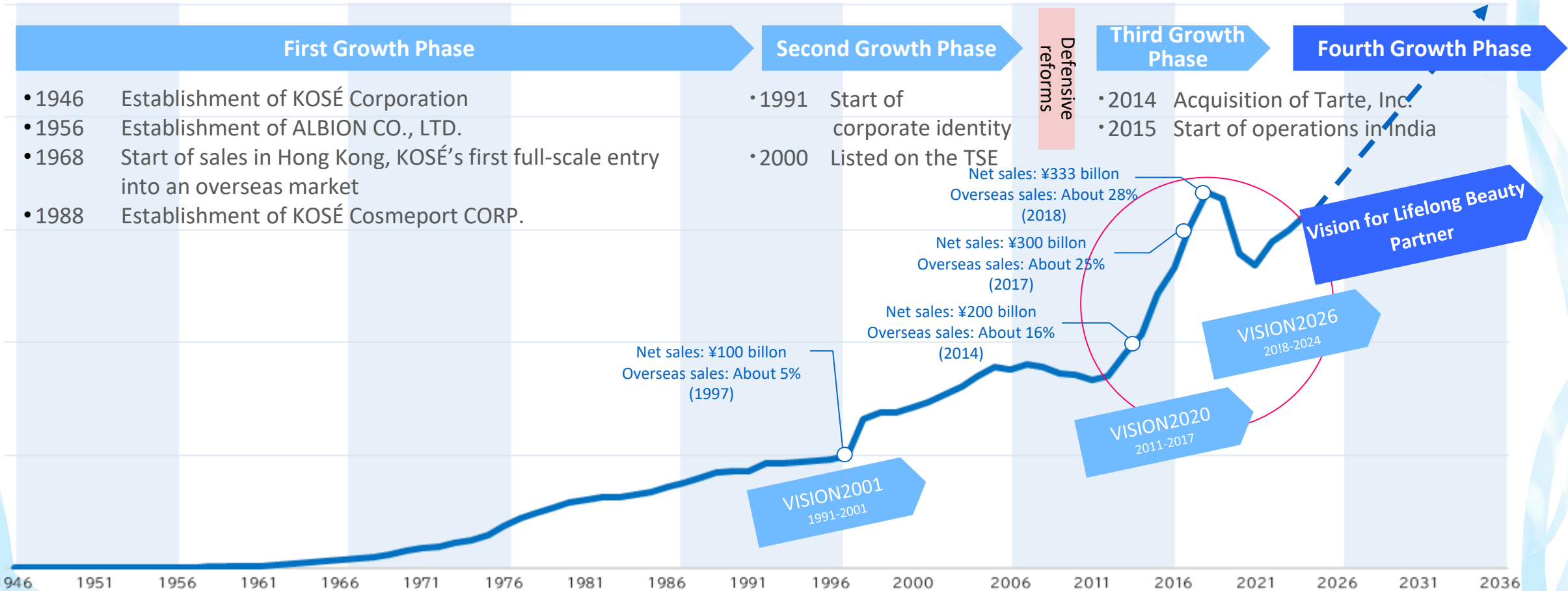
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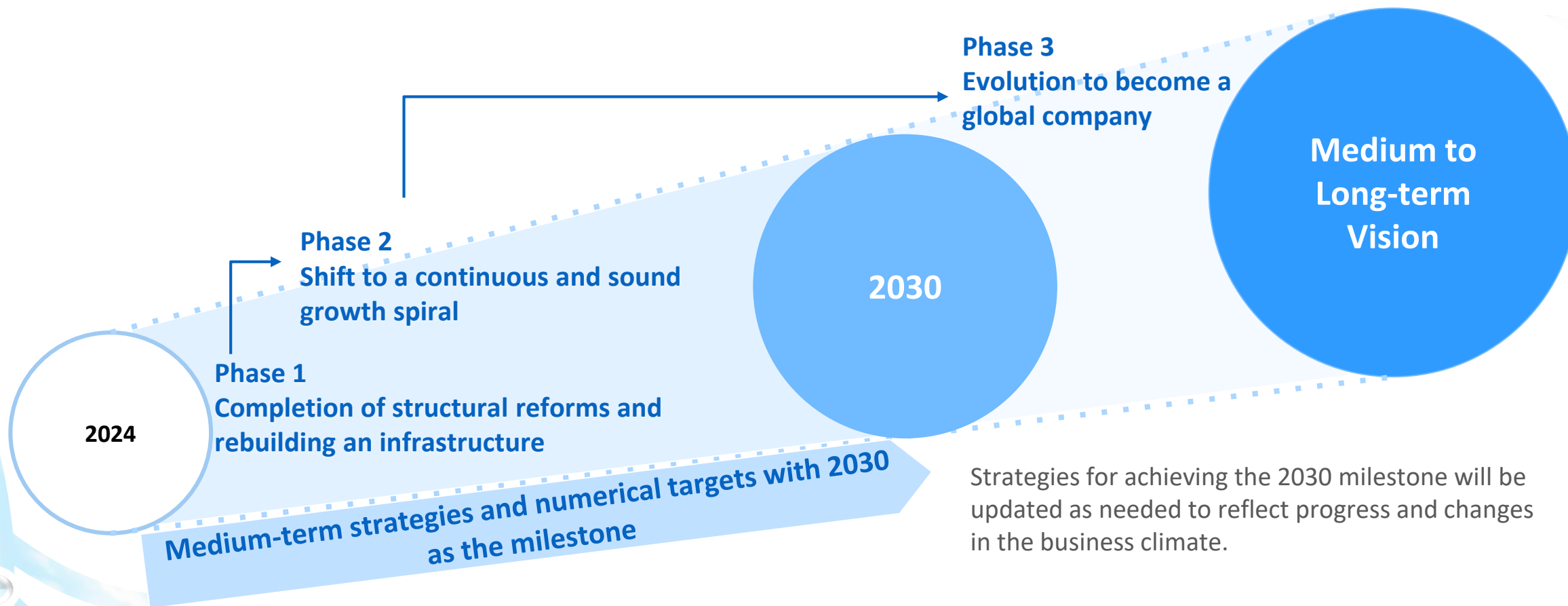
Central Themes of the Medium to Long-term Vision

- During the third growth phase, which followed VISION2020, sales fell because of the pandemic.
- Based on issues that were revealed during VISION2026, the next vision is positioned as the fourth growth phase with the goal of a consistent growth spiral.



Our Medium to Long-term Vision

- We determined Our Vision for KOSÉ that looks ahead more than 10 years and created a roadmap for making this vision a reality.
- The roadmap consists of medium-term strategies and numerical targets with 2030 as the milestone.
- There are three phases for accomplishing this vision.
 - ▶ Completion of structural reforms and rebuilding an infrastructure
 - ▶ Shift to a continuous and sound growth spiral
 - ▶ Evolution to become a global company



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Key Megatrends

- As the world continues to change, there is a broad spectrum of actions and roles for KOSÉ centered on the theme of beauty.
- Guided by the beliefs that defined KOSÉ when it was founded, we will retain a firm commitment to the provision of forms of value possible only by a company that originated as a producer of fine cosmetics.

Population trends

- Developed countries: Populations are aging
- Emerging countries: Population growth, increasing middle class, rapid urbanization

Values

- Increasingly small categories and rising diversity of how people regard value
- Various values regardless of age or gender
- Increasing awareness of the importance of good health and wellness

Social framework

- Increasing speed of shift to borderless economies, cultures and consumption
- Companies and governments are moving faster to deal with social and environmental issues
- Emphasis on ethics in society is expanding to encompass consumers too

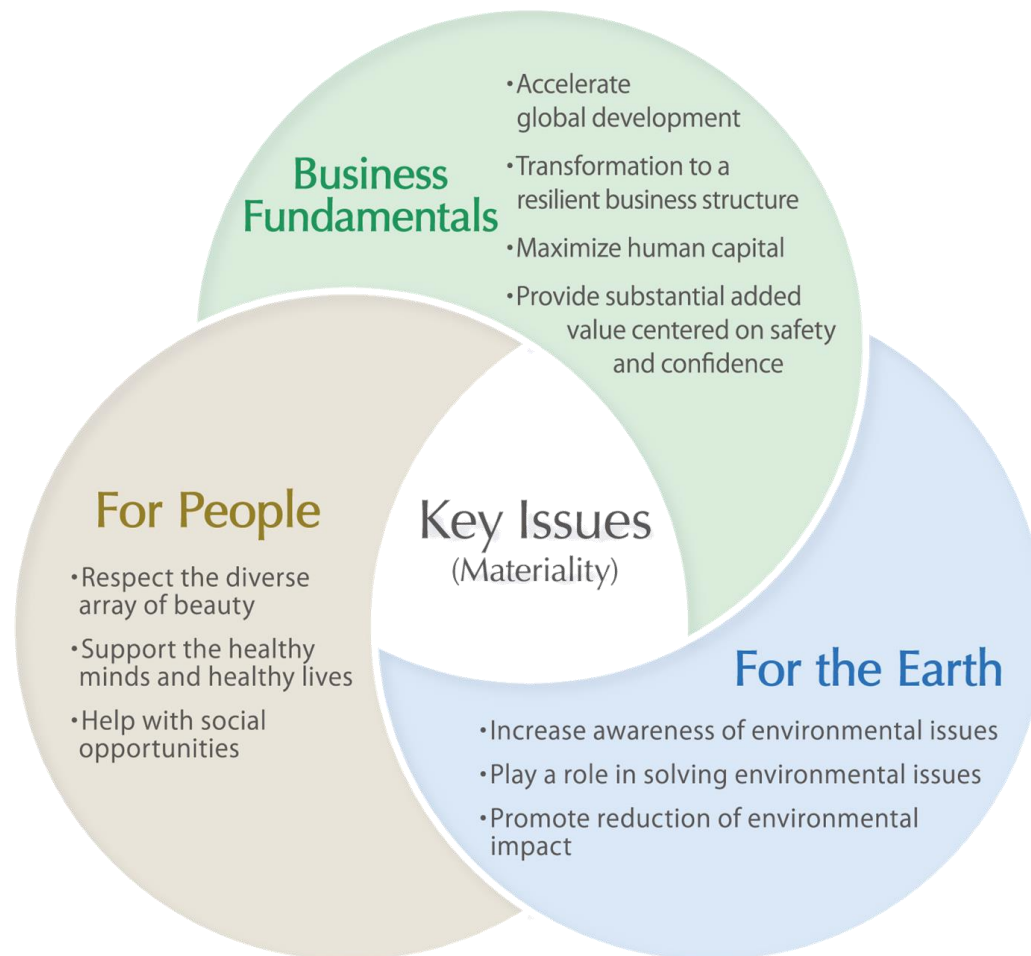
Technology

- Increasing speed of advances involving AI/personalized technology
- Innovations involving skin science and biotechnology
- Coexistence of digital and real worlds



Issues for Accomplishing the Next Vision

- Creation of the next vision was based on work remaining to be done following VISION2026, identification of issues concerning the gap between KOSÉ today and Our Vision, and changes in the business climate and society issues. These factors were combined with assessments by individual KOSÉ business units and by external parties to determine key issues.
- Issues that are part of the new vision are divided into three categories: business, society and the environment.



Our Vision for KOSÉ and Core Beliefs

- Our Vision was established to pursue our Purpose while reflecting the megatrends and key issues affecting our business operations.
- To accomplish this vision, we will use the core beliefs (Business conduct guidelines x Values) shared by all KOSÉ Group companies as the basis for business operations.

Purpose | Create a culture and values embodying a distinctive beauty through a sophisticated fusion of sensuousness and intelligence.

Vision for Lifelong Beauty Partner — Milestone2030

Vision | **Your Lifelong Beauty Partner**

Belief | **Business conduct guidelines** | **Embracing each other, we color our lives with beautiful moments**

3G (Global/Gender/Generation)

↳ View customers by using a broad perspective incorporating these three elements

Adaptability (Meet diverse expectations)

↳ Meeting a diverse range of customer needs with a highly appealing brand portfolio

Sustainability & Connectivity (A constant partner)

↳ Always meet the expectations of customers by remaining a partner as they advance through different stages of their lives

Values | **KOSÉ Beauty Partnership** | Builds relationships for mutual progress among all stakeholders

Numerical Targets

- **Financial targets:** Establish indicators for determining the achievement of transformation to a resilient business structure.
- **Non-financial targets:** Establish targets involving human resources, which are essential for sustained growth.

Retain the same activity targets involving social and environmental issues in accordance with the goal of the KOSÉ Sustainability Plan.

	Themes	Indicators	2023	2030 Milestone	
Financial targets	Sales	Consistent sales growth	Ratio to net sales	3.9%	CAGR of more than +5%
		Stronger global operations	Overseas sales ratio	36.8%	More than 50%
	Profitability	Continuously generate earnings	Operating margin	5.3%	More than 12%
			EBITDA margin	8.8%	More than 18%
Efficiency	Efficient and effective investments for growth	ROIC*1	3.1%	More than 10%	
Non-financial targets	Human capital	Human resources that can support global growth	Global personnel vs. Global key posts*2	1.4 times	More than 2.5 times
	Social issues	Respect for a diverse array of beauty	Product/service ratio using Adaptability ∞*3	76.0%	100%
		Support for enjoying fulfilling and healthy lives	Activities contributing to wellbeing	121	More than 500 *4
	Environmental issues	Increasing awareness of environmental issues	People who have raised environmental awareness	6.87 million people	More than 10 million people
Measures to the environmental impact of KOSÉ's business operations		CO ₂ emission reduction rate	Scope 1•2	-45.1%	-55% *5
	Scope 3		-26.5%	-30%	

*1: Before application of new lease accounting standard *2: Global personnel divided by the number of global key posts *3: For the eight KOSÉ action themes of Adaptability ∞, key annual themes of individual brands were selected and the number of products and services that accomplished these themes were counted to calculate the achievement ratio. *4: Cumulative values since 2020 *5: Reduction in relation to the 2018 level

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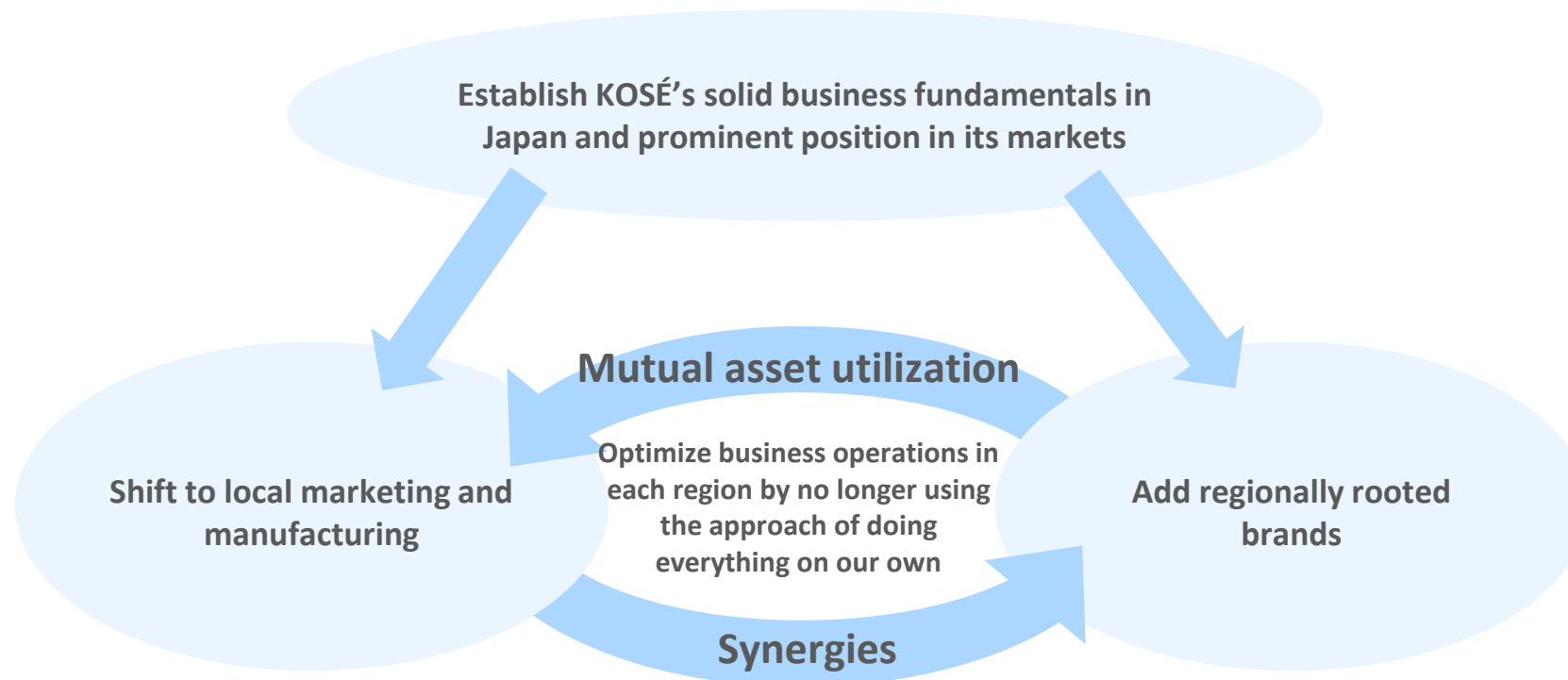
VISION2026 Accomplishments and Remaining Issues

- Despite the significant impact of the pandemic, Japan and North America have shifted to an upward trend, though substantial challenges persist in the Asian operations.
- Three areas where more work is needed: Accelerate global development, Transformation to a resilient business structure, Establish a sound infrastructure for business operations.

Items	Accomplishments	Remaining issues
Growth (Sales)	<p>Sales increased every year from FY03/2013 to FY03/2019 but the pandemic stopped growth in the following years.</p> <ul style="list-style-type: none"> • Some accomplishments involving global business growth and sales channel expansion • Stronger global market profiles of DECORTÉ and Tarte • Profitability of Japan operations improved (except sales to foreign tourists) 	<p>Accelerate global development</p> <ul style="list-style-type: none"> • Develop in overseas markets global brands other than DECORTÉ and Tarte • Reexamine the composition of business operations in Global South countries • Rebuild business operations in Greater China (inventory control, increase brand value)
Profitability Efficiency	<ul style="list-style-type: none"> • Operating margin: 5.3% vs. target of at least 16% (2023) • ROA: 4.7% vs. target of at least 18% (2023) • ROE: 4.4% vs. target of at least 15% (2023) 	<p>Transformation to a resilient business structure</p> <ul style="list-style-type: none"> • Improve profitability and efficiency for rebuilding structure for generating profits • Efficient inventories (1.4 times) and use of cash (1.5 times) for investments for growth
Key strategies (Growth)	<ul style="list-style-type: none"> • Developed products that create excitement • Started activities to attract customers beyond existing segments by focusing on 3G measures 	<p>A sound infrastructure for business operations</p> <ul style="list-style-type: none"> • Revitalization of manufacturing (quality, technologies, cost) • Increase awareness and affinity among younger generations (generation Z and alpha) • Be a source of value in the wellbeing domain
Key strategies (Providing value)	<ul style="list-style-type: none"> • Used Maison KOSÉ, personal beauty concierges and other direct-to-consumer operations to establish a framework for providing personalized experiences. • Established an adaptable manufacturing structure for developing products (Adaptability ∞) 	<p>A sound infrastructure for business operations</p> <ul style="list-style-type: none"> • Increase use of customer data (KOSÉ-ID) for customer relationship management • Create business value through linkage with external resources and technologies
Key strategies (Infrastructure)	<ul style="list-style-type: none"> • Started construction at the new Minami Alps plant that will support more growth • Created a pleasant workplace environment for a diverse workforce and established many associated benefits and other forms of support • Conducted corporate sustainability activities and received recognition from external parties 	<p>Accelerate global development/A sound infrastructure for business operations</p> <ul style="list-style-type: none"> • Rebuild business processes/business process foundation with measures incorporating the goal of global growth • Establish an organizational structure, mindset and corporate culture for growth on a global scale • More thorough linkage of functions within the KOSÉ Group and measures to further upgrade the group's strengths

Key Components of the Medium-term Strategy

- Establish KOSÉ's solid business fundamentals in Japan and prominent position in its markets to create reliable growth resources and these resources will be invested in sustainable growth.
- Optimize business operations in each region by no longer using the approach of doing everything on our own for the growth on a global scale
 - 1) Shift to local marketing and manufacturing = Use local resources for optimizing the value of Japanese brands
 - 2) Add regionally rooted brands = Use M&A and alliances for portfolio optimization



Key Themes of the Medium-term Strategy and Overall structure

Strategic goals for reaching the 2030 milestones

Shift to a continuous and sound growth spiral by using structural reforms and a reconstructed infrastructure for sustained growth.

Strategies	Key points
Business Strategy	Position the cosmetaries category as the priority business domain while using a business structure centered on the high prestige category as the main source of earnings
Regional Strategy	Shift strategy from a high dependence on the Greater China market to the Global South market(ASEAN/India) as the next growth area
	Investments for inorganic growth centered on the high prestige/cosmetaries categories and Global South(ASEAN/India)/U.S./Europe regions
Customer Strategy	Starting in Japan, use the KOSÉ ID for stronger personal ties with customers and use digital technologies to offer customers new experiences
Customer Strategy	Strengthen activities for attracting new customers with emphasis on gender/generation expansion, positioning these activities as new opportunities for growth
Functional Strategy	Build a powerful infrastructure and delegate more responsibility to local managers for the optimization of regional business operations (Manufacturing/HR)
	Finance: Change to a lean and efficient management system to transform to a resilient business structure (higher profitability and efficiency)
Functional Strategy	Sustainability: Incorporate the KOSÉ Sustainability Plan in the medium to long-term vision and speed up activities to achieve value creation and a stronger infrastructure
Strategy for the KOSÉ Group	Establish a management framework that maximizes group synergies, accelerates decision-making, and enables the strategic and efficient allocation of management resources Accelerate the expansion of our diverse business models globally and enhance the value we deliver in the wellbeing domain

KOSE's Medium-term Strategy



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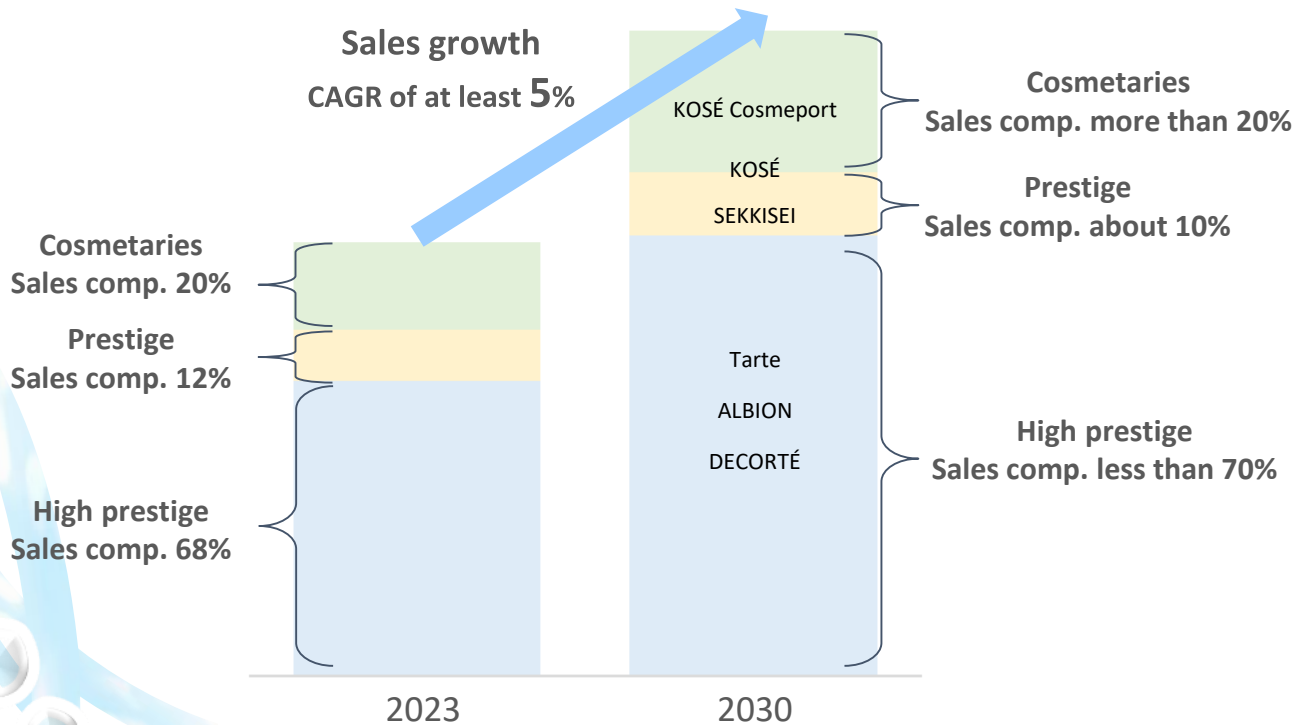
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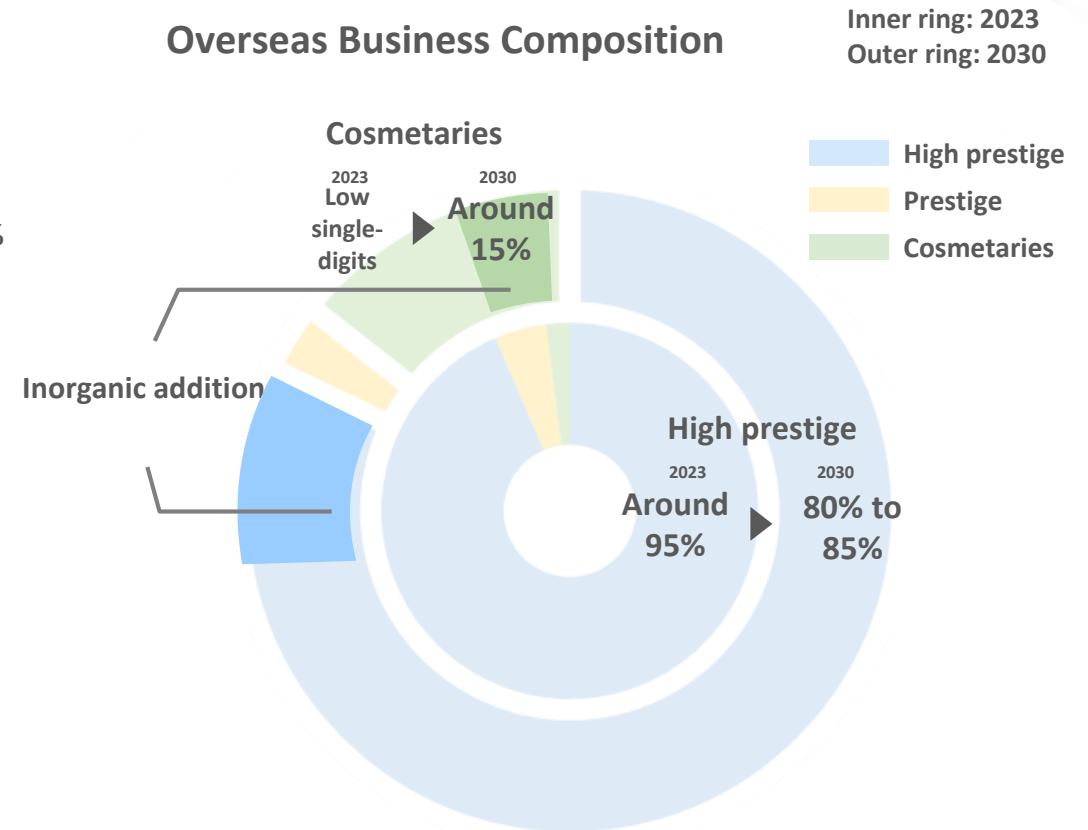
Key Components of the Business Strategy

- The goal is consistent sales growth (CAGR of at least 5%)
- Retain a business structure centered on the high prestige category, primarily DECORTÉ, ALBION and Tarte
- Enlarge and strengthen the cosmetaries category to expand sales in the Global South market(ASEAN/India).
- Strengthen the prestige category, mainly in Japan, and increase the distinctive value of each of KOSÉ's brands.

Projected Growth for Brand Categories



Overseas Business Composition



Key Themes of Business Strategies

- Growth strategies backed by the distinctive strengths of each of KOSÉ’s brands. (Deepen and rebuild brand value, and create new customer touchpoints)
- Planning numerous activities, including setting an investment framework of approximately 20% of operating cash flow by 2030, and actively exploring the acquisition of new brands and businesses.

Segment	Organic Growth	Inorganic Growth
High prestige	<p>DECORTÉ</p> <ul style="list-style-type: none"> • Create value based on luxury and the use of advanced science technologies • Rebuild brand value in Greater China (establish linkage centered on the AQ and LIPOSOME products) <p>ALBION</p> <ul style="list-style-type: none"> • Reinforce the digital technology strategy and increase customer touchpoints (Start studies to prepare for launching ALBION in the EC) • Increase the value of the ALBION brand worldwide (ALBION AUTHENTIQUE) <p>Tarte</p> <ul style="list-style-type: none"> • Continue the strategy of being the “social-first brand” and remain the leading concealer brand • Continue to seek new sales channels to add more customer touchpoints in North America 	<ul style="list-style-type: none"> • Seek new brands and businesses mainly in Europe, North America and the Global South (Mainly the skin care and fragrance categories)
Prestige	<p>KOSÉ</p> <ul style="list-style-type: none"> • Activities targeting the “natural clean beauty” market segment • Expand brand recognition of the SEKKISEI brand in Asia and North America and strengthen its presence in Japan • Pursuit a competitive advantage based on uniquely Japanese emotional and functional values 	
Cosmetaries	<p>KOSÉ Cosmeport</p> <ul style="list-style-type: none"> • Activities to be the leader in targeted categories (cleansing products, sheet masks, sunscreen) • Activities for growth in the skin care and in-bath hair care categories • Promote the optimization of regional business operations to rebuild business outside Japan 	<ul style="list-style-type: none"> • Seek new brands and businesses mainly in the Global South (Mainly the skin care category)

Regional Strategy

- Organic collaboration among four businesses (KOSÉ, KOSÉ Cosmeport, ALBION, Tarte) for effective activities for global growth.
- The highest priority of KOSÉ Credit's global strategy is actions for growth in the Global South (ASEAN, India).
- In Greater China (including duty-free) and the Global South, the structural reform phase is planned for about two years. The goals are rebuilding business models and establishing a more powerful infrastructure for business operations.

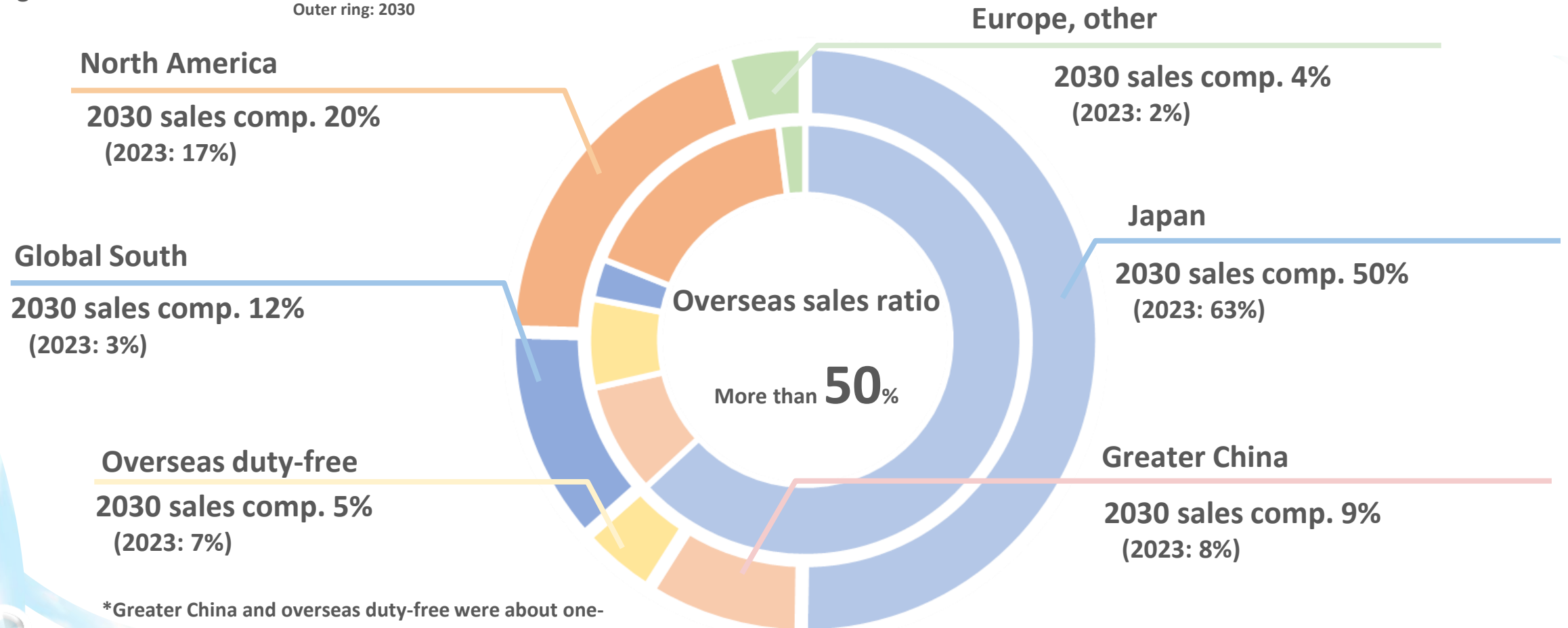
	Japan	Greater China	Overseas duty-free	Global South (ASEAN/India)	U.S.	Europe
KOSÉ	Evolution, greater depth	Strategic shift	Strategic shift	Strategic shift		
KOSÉ Cosmeport	Evolution, greater depth	Strategic shift		Strategic shift		
ALBION	Evolution, greater depth	Strategic shift				
Tarte					Evolution, greater depth	Evolution, greater depth
Inorganic growth				M&A, alliances	M&A, alliances	M&A, alliances

Projected Regional Growth

- Shift strategy from a high dependence on the Greater China market to the Global South market as the next growth area
- Investments for aggressive M&A deals and alliances for inorganic growth
- Use collaboration among group companies that match the characteristics of individual regions to raise the overseas sales ratio to more than 50%

Regional Sales

Inner ring: 2023
Outer ring: 2030



*Greater China and overseas duty-free were about one-fourth of sales following the end of the pandemic.

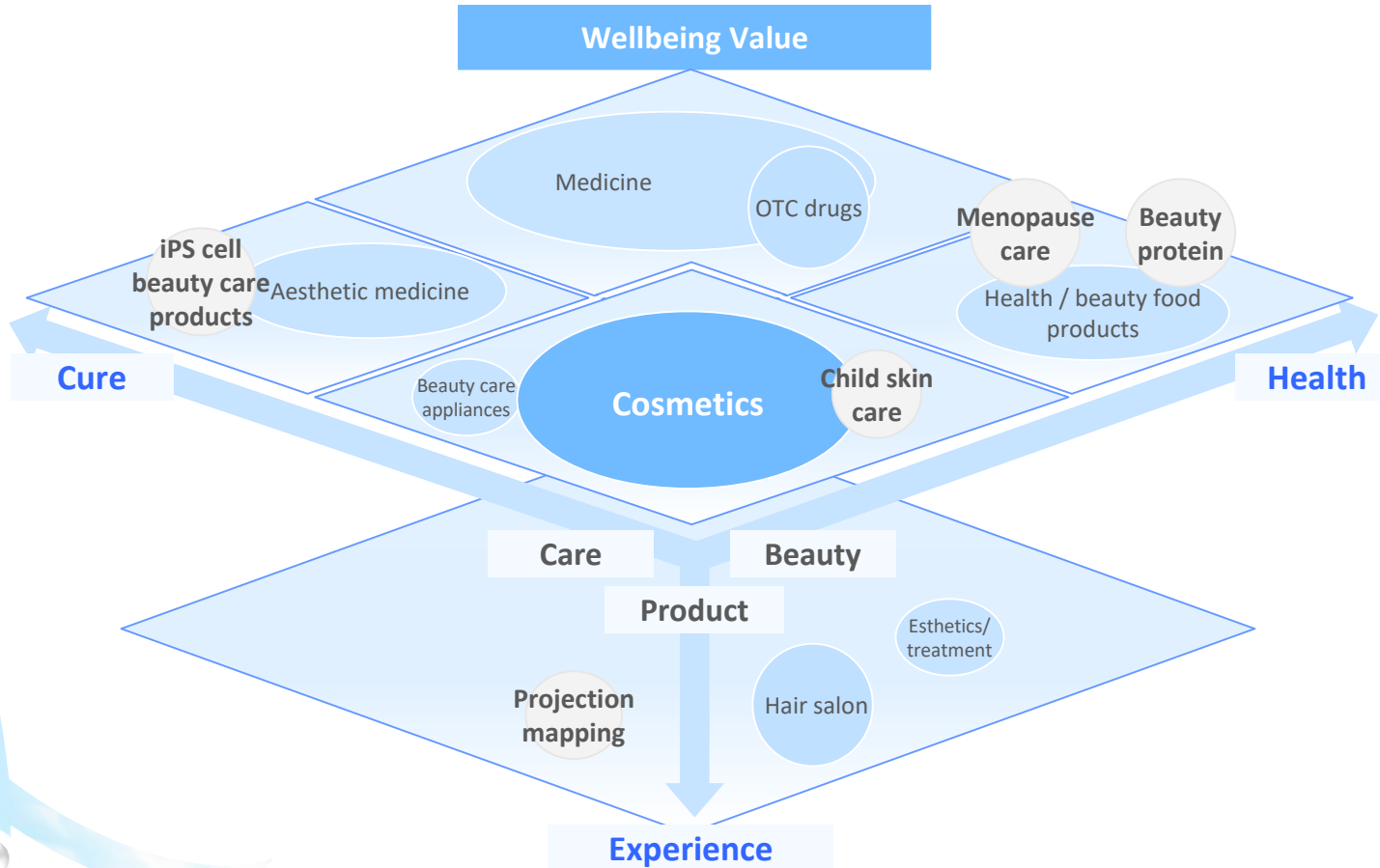
Key Themes of Regional Strategies

- Rebuild business models and reinforce the business fundamentals while delegate more responsibility to local managers for the optimization of regional business operations
- Leverage the value chain of local companies to achieve inorganic optimization of regional operations
- Enhance digital strategies with a focus on the Japanese market to transform the customer experience and strengthen relationships

Region	Key themes	Major initiatives
Greater China (including duty-free)	Target the high prestige domain by rebuilding brand value	<ul style="list-style-type: none"> • DECORTÉ: Rebuild value within China • ALBION: Leverage Japan duty-free as the base for increasing this brand's stature in China • Constantly adjust shipments to maintain proper distributor inventories
	Target the premium mass market	<ul style="list-style-type: none"> • Take advantage of the sales agent business for actions to grow in this domain. • Establish the cosmetaries business framework covering the group. (KOSÉ/KOSÉ Cosmeport)
Global South	Build a sound ASEAN regional infrastructure	<ul style="list-style-type: none"> • Establish a regional headquarters for overseeing all Global South operations. • Establish the cosmetaries business framework covering the group. (KOSÉ/KOSÉ Cosmeport)
	Supply products that match local needs	<ul style="list-style-type: none"> • Give local headquarters the authority to develop products. • Establish a local manufacturing framework by working with local ODMs.
	Strengthen business fundamentals by using M&A and alliances	<ul style="list-style-type: none"> • Acquire new business resources in the ASEAN region and India and study ways to extend operations to more business domains.
Japan	Leverage the digital technology strategy for customer experience innovations	<ul style="list-style-type: none"> • Use customer ID data (KOSÉ ID) for even stronger personal relationships. • Upgrade the framework for relationships with customers who select products themselves.
	More opportunities for Beauty Consultants/ Advisers and more innovations for activities	<ul style="list-style-type: none"> • Establish a foundation for enhancing in-store activities through digital transformation and improving customer experience value. • Recruit people in a manner reflecting the changing labor market.
	New business starting from current group assets	<ul style="list-style-type: none"> • Continuous creation of businesses by using the LINK internal new business creation program • Expand opportunities for new challenges by using KOSÉ's system allowing employees to be assigned to more than one department at the same time.

Business Domain Expansion

- Enlarge value provided in the wellbeing domain while retaining emphasis on beauty and expand business operations that are a source of value in terms of experiences as well as products
- Use the new business creation program LINK and investment funds to develop new businesses that enlarge the boundaries of current businesses, which is one of the main goals of KOSÉ
- Utilize technology and expertise acquired through M&A and alliances within the group



Measures for business domain expansion

New products ↑ Existing products	New businesses	Portfolio additions (M&A, alliances)	Portfolio additions (M&A)
	LINK Use of funds	New businesses using new ideas and assets within the KOSÉ Group	Portfolio additions (M&A, alliances)
	Existing business	LINK Use of funds	New businesses
	Existing market	→ New market	

Customer Strategy (Gender/Generation)

- Focus on gender/generation expansion as a growing category within a mature cosmetics market sector.
- Use brand activities to provide products, services and promotions (Adaptability ∞) that reflect the needs and preferences of a broad spectrum of customers.
- The priority is to unite the strength of all brands to expand our customer base by enhancing corporate activities aimed at increasing awareness and understanding of KOSÉ's brands among generation Z and alpha.

Adaptability ∞

Eight items that respect the value of each person.

By setting target focus items for each brand, we provide products and services that meet the targets these items.



Unfettered by gender



Transcending age constraints



Excluding no one



User-friendly and simple



Blending diverse cultures



Respectful expression



Adapted to all skin and hair types



Harmonizing with personal beliefs

Major activities involving generations Z and alpha

By using products and services that create excitement as a means of fostering curiosity and self-confidence among members of the next generations, we want to enable these people to determine their own preferences and identities while giving them reasons to become KOSÉ customers.

1) Sunscreen products

Protection from UV light rays for a lifetime of healthy skin

2) Skin care products

Encourages people to develop the habit of caring for their skin for a lifetime of healthy skin

3) Makeup products

Gaining an understanding of the diversity of other people's values while placing emphasis on one's own values

4) Room fragrances

A means of self-expression while learning about and enjoying a variety of fragrances



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Upgrading Capabilities for Achieving Regional Optimization

- Growth on a global scale will require upgrading functions required for the optimization of regional business operations (value creation and a stronger infrastructure).
- Advance operational reforms aimed at expanding the scale of business and transitioning to a lean and efficient business structure.
- Accelerate the transformation of our business structure by increasing IT and digital investments to strengthen the business fundamentals.

Functions	Key themes	Major initiatives
HR strategy	The KPI is the global key post filling ratio, which is the number of people in global key posts divided by the number of these posts.	
	Expansion of global functions	<ul style="list-style-type: none"> • Global capabilities involving manufacturing • Functions involving overseas subsidiaries; more autonomy for these companies
	Training for and increase in global personnel	<ul style="list-style-type: none"> • More classes and learning experience opportunities concerning languages and skill development • Encourage the effective utilization of overseas human resources and the recruitment and training of personnel to manage overseas subsidiaries
Manufacturing strategy	A global framework for developing products	<ul style="list-style-type: none"> • Clear structuring and diversification of product development processes • Joint activities with external OEM/ODM companies
	A foundation to support business growth	<ul style="list-style-type: none"> • Manufacturing: Use the Minami Alps Factory as the base for strengthening and enlarging manufacturing operations • Supply chain: Establish a global supply chain management framework
Transformation to a resilient business structure	Maximize SKU efficiency	<ul style="list-style-type: none"> • Visualization of earnings of every SKU • Fewer SKUs for new products using internal development processes
	Reduce inventories, expenses and waste materials	<ul style="list-style-type: none"> • Use ROIC tree for the visualization of issues at every business unit • Reexamine manufacturing processes
	Visualization and maximization of benefits produced by investments	<ul style="list-style-type: none"> • Establish an internal process for the governance of benefits of investments • Increase IT/digital technology investments for improving efficiency

- Activities that were part of the KOSÉ Sustainability Plan established in 2020 are now incorporated in the medium to long-term vision.
- Moving faster for value creation and a stronger infrastructure with the goals of solving social and environmental issues as well as ensuring the perpetual viability of business activities.

	Themes	Indicators	2023	2030 Milestone	
Social issues	Respect for a diverse array of beauty	Product/service ratio using Adaptability ∞*1	76.0%	100%	
	Support for enjoying fulfilling and healthy lives	Activities contributing to wellbeing	121	More than 500 *2	
Environmental issues	Increasing awareness of environmental issues	People who have raised environmental awareness	6.87 million people	More than 10 million people	
	Measures to the environmental impact of KOSÉ's business operations	CO ₂ emission reduction rate	Scope 1・2	-45.1%	-55%*3
		Scope 3	-26.5%	-30%	

*1: For the eight KOSÉ action themes of Adaptability ∞, key annual themes of individual brands were selected and the number of products and services that accomplished these themes were counted to calculate the achievement ratio. *2: Cumulative values since 2020 *3: Reduction in relation to the 2018 level

■ KOSÉ Sustainability Principles

Creating Beauty in a Sustainable World

■ Fundamental Policy

Mind to Follow the Right Path

Overview of our sustainability strategy
<https://corp.kose.co.jp/ja/sustainability/plan/>

Continue creating ideas involving the value of beauty that originate from diversity

- Adaptability activities for reflecting diversity in business operations
- Many ideas for value involving the diversity of beauty while using both global and local perspectives

Use beauty for lives with greater fulfillment of body and mind

- Increase activities in the wellbeing and corporate social responsibility domains.
- Build support frameworks for specific purposes, such as education for members of the next generation.

Raise public awareness of environmental issues

- Visualization of KOSÉ's contributions involving environmental issues by disclosing environmental data concerning products and other items
- Provision of a large volume of environmental data to help consumers select products

Lower environmental impact of global operations and the value chain

- More information about the global environment and activities concerning environmental issues
- More linkage of value chain measures concerning climate change, the responsible use of water and other environmental issues

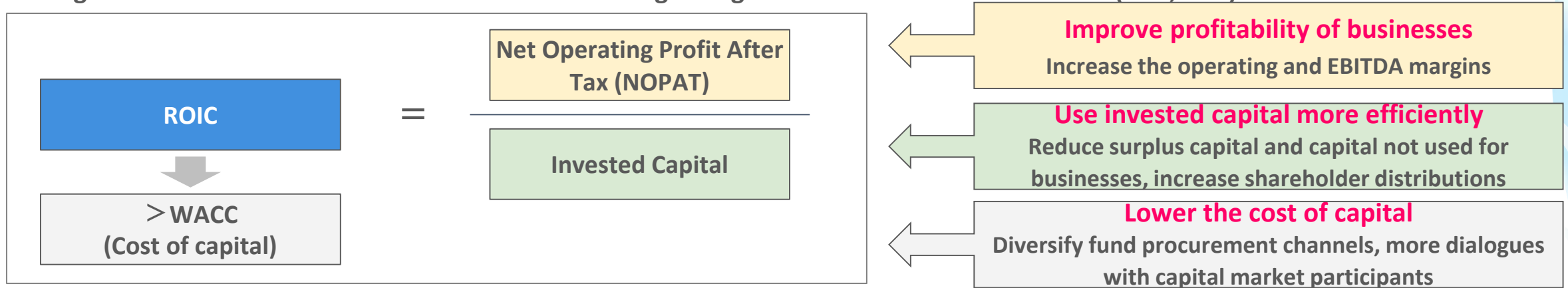
Financial Strategy

- A shift from VISION2026, which had the goal of global market share growth chiefly by using highly profitable Greater China, where demand was increasing
- End the emphasis on Greater China and aim for growth of existing businesses in the Global South and for inorganic growth
- Start using the EBITDA margin, excluding depreciation, as a profitability indicator to support both investments for growth and measures to become more profitable
- Also use the ROIC as an indicator of the efficient use of capital

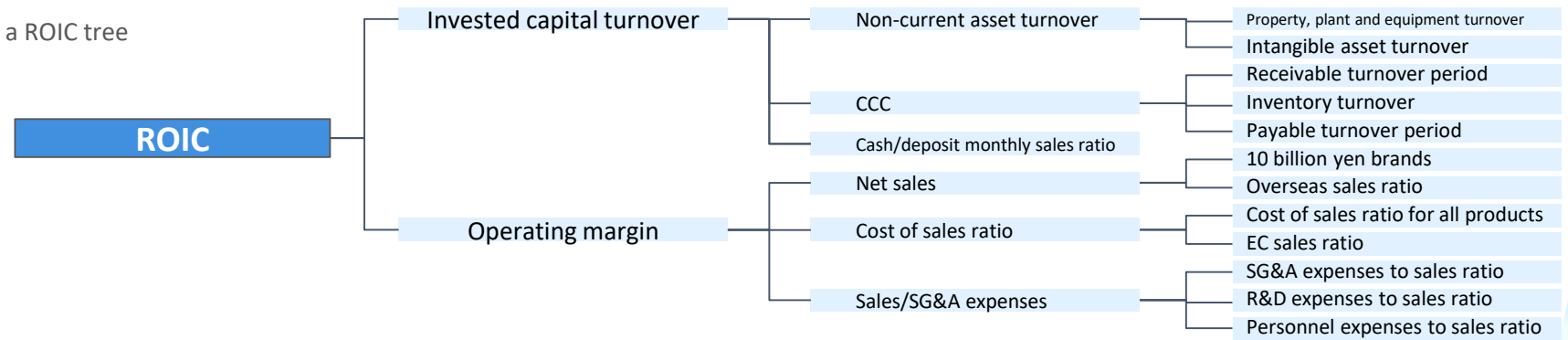
	VISION2026	2030 milestone targets
Announced	March 2018	November 2024
Top-line growth	Net sales: ¥500 billion (Assumes 5.7% CAGR)	Ratio to net sales: CAGR of more than 5%
Higher profitability	Operating margin: more than 16%	Operating margin: more than 12% EBITDA margin: more than 18%
Higher capital efficiency	ROA: more than 18% ROE: more than 15%	ROIC: more than 10%
Greater overseas profile	Overseas sales ratio: more than 50%	Overseas sales ratio: more than 50%

Management Conscious of Cost of Capital and Stock Price – Use of ROIC

- We have started using the ROIC for using capital more efficiently, which is an improvement needed at the KOSÉ Group.
- The ROIC tree is providing visualization of management issues at individual business units to facilitate specific actions for improvements.
- Dialogues with investors will continue while monitoring changes in stock valuation indicators (PBR, PER).



Example of a ROIC tree



$$\text{PBR} = \text{ROE} \times \text{PER}$$

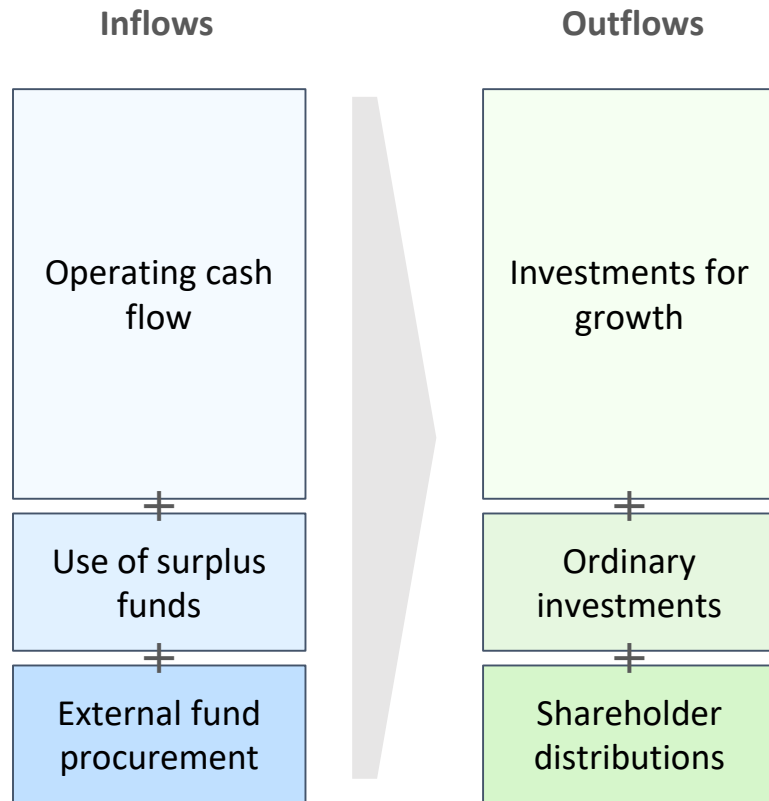
Price-to-Book Ratio Return on Equity Price Earnings Ratio

ROE: Improvement in capital efficiency due to a higher ROIC
PER: Dialogues with investors about strategies for growth using a long-term perspective with the goal of increasing corporate value

Management Conscious of Cost of Capital and Stock Price – Allocation of Cash

- Use cash generated by improving the profitability of existing businesses and reducing surplus funds for investments for growth
- Improve capital efficiency capital more efficiently through the effective use of funds within the group and an increase in distributions to shareholders
- Consider the use of debt too for funding investments to use capital more efficiently

Approximate cash inflows and outflows



Cash inflows	
Operating cash flow	• Higher earnings
Surplus funds	• Reduce surplus bank deposits • Reduce working capital
External procurement	• Use debt to procure funds
Cash outflows	
Investments for growth	• Global growth and greater brand awareness • M&A and equity alliances • Digital investments (customer experiences, better CRM, business process reforms) • R&D expenditures • Establish global supply chains
Ordinary investments	• Manufacturing upgrades (Minami Alps + existing factories) • IT investments, sound infrastructure for businesses
Shareholder distributions	• Steady medium to long-term dividend growth • Well-timed stock repurchases based on opportunities to make investments for growth, the ROIC, current stock price and other considerations

Introduction

1. How the Vision was Established
2. Our Vision for KOSÉ
3. Outline of Strategies
4. Growth Strategy
5. Functional Strategy

Closing

Supplementary Information

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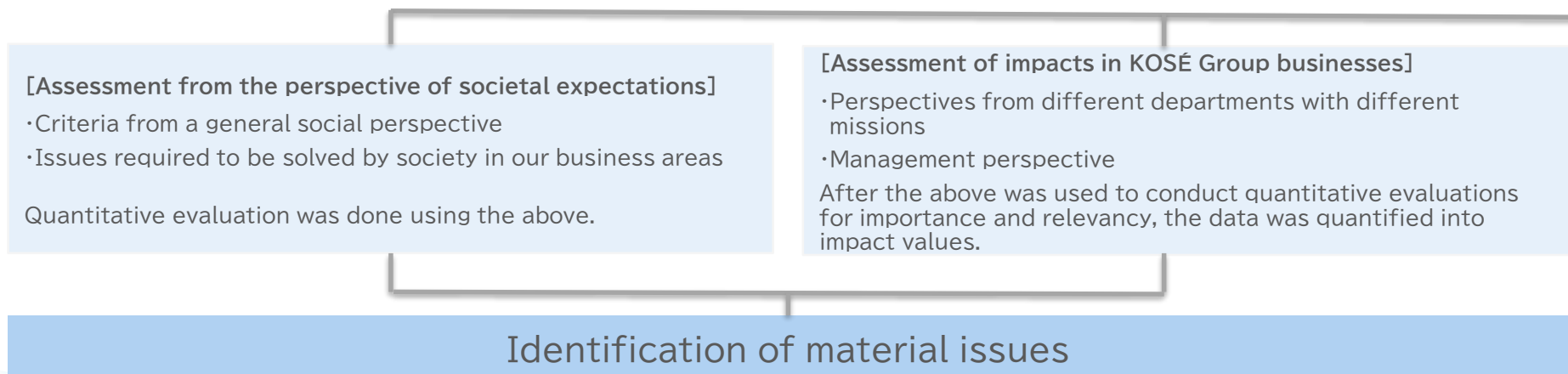
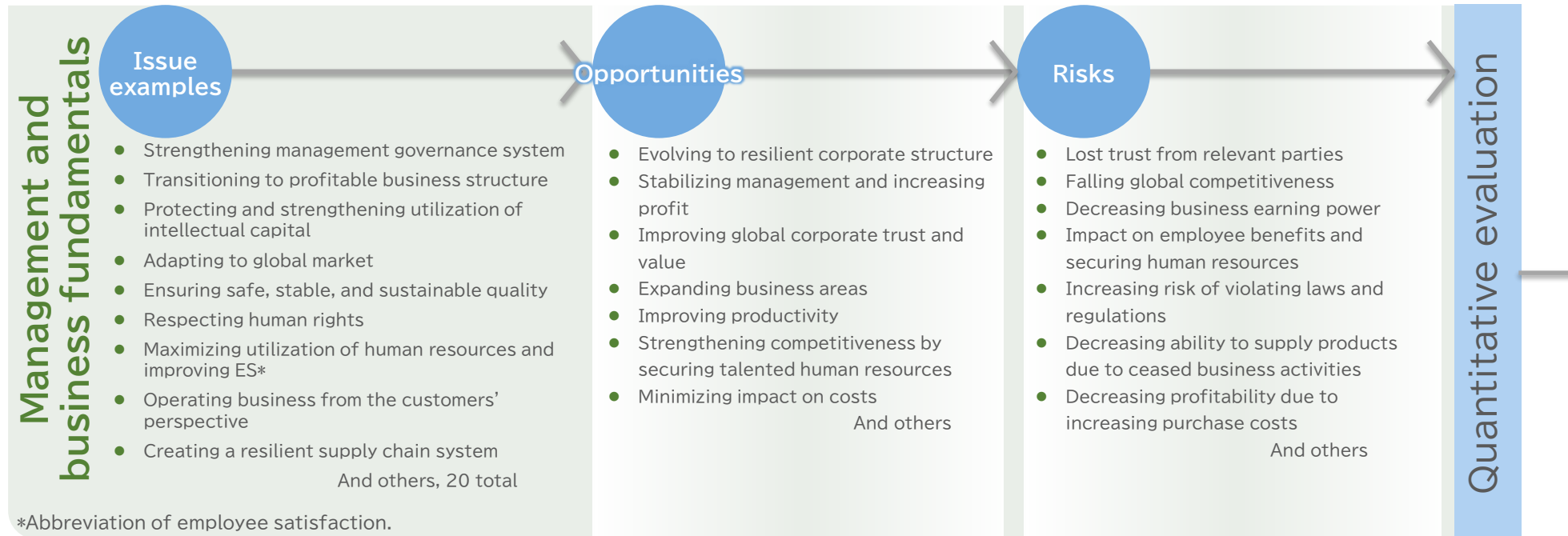
Social and Environmental Issues Relevant to the KOSÉ Group, and Risk-Opportunity Analysis 1

To identify material issues, we first pinpointed social and environmental changes and issues relevant to the KOSÉ Group as well as relevant opportunities and risks, and then we conducted assessments while focusing on two main areas: expectations from society, and business (financial) impact on the Group by relevant internal departments.

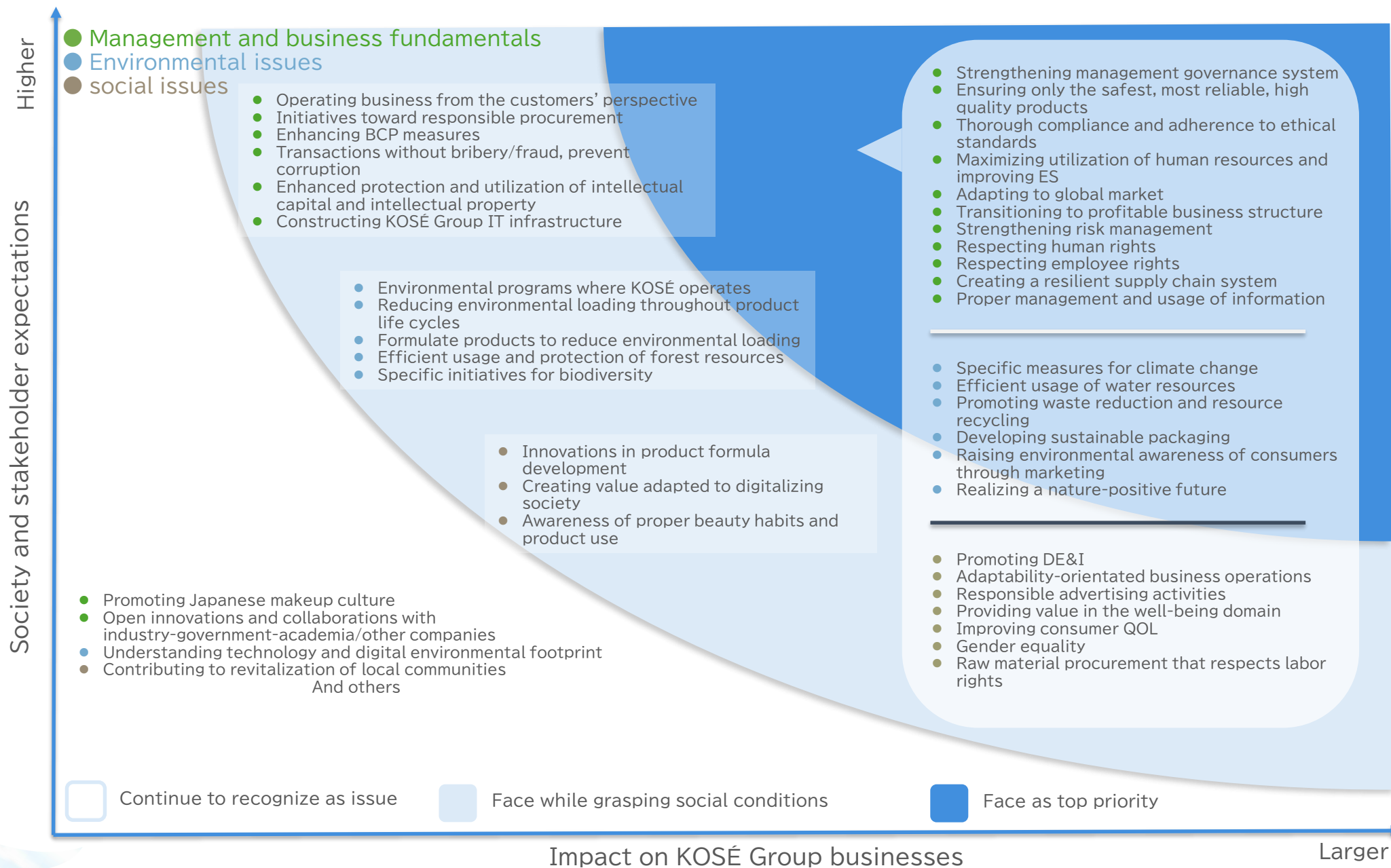


Items concerning management and business fundamentals on next page

Items concerning people and society, and environment are on the previous page



Quantitative Evaluation List for Identification of Material Issues







Identification of material issues

After quantitative evaluations, we integrated several items including issues from reviewing the previous medium- to long-term Vision, and they are identified as material issues for the current medium- to long-term Vision. The addition and integration of business financial perspectives from material issues identified in 2020 is a major point of change.

	Matters that must be faced and society expectations		Material issues	
Business Issues	Development of priority global brands	Adapting to global market	Accelerate global development	Business fundamentals
	Reconstruction of business in China	Creating an attractive brand portfolio		
	Improving profitability and efficiency	Optimizing inventory and investments for growth	Transformation to a resilient business structure	
	Upgrading business management functions	Promoting long-term management		
	Creating a value chain with a competitive edge (research, production to sales)	Creating an efficient production system		
	Developing leading technologies (raw material/formulation development and manufacturing technology)	Strengthening function linkage within the Group and improving comprehensive abilities	Maximize human capital	
	Reconstructing work processes and work fundamentals	Creating an organizational/mindset/workplace culture and improving productivity		
	Promoting DE&I (employee attributes, experience, and skills)	Improving employee engagement		
	Revitalizing manufacturing (quality, technology, and cost)	Creating values not limited to cosmetics (well-being value)		
	Increasing seamless contact points with customers and gaining customer experience	Increasing LTV while focusing on customer data (KOSE-ID)	Provide substantial added value centered on safety and confidence	
Increasing awareness of and empathy toward a wide range of generations	Creating business value linked to external resources and technologies			
Operating business from the customers' perspective				
Social Issues	Respecting diverse beauty values	Responsible advertising	Respect the diverse array of beauty	For people
	Contribute to providing value in the well-being domain	Improving consumer QOL	Support the healthy minds and healthy lives	
	Awareness of proper beauty habits and product use	Responsible raw material procurement with good working conditions		
	Gender equality	Promoting DE&I (society and employee diversity)	Help with social opportunities	
Environment Issues	Raising environmental awareness of consumers through marketing		Increasing awareness of environmental issues	For the Earth
	Environmental programs where KOSÉ operates	Specific initiatives for biodiversity ³⁶³⁶	Play a role in solving environmental issues	
	Climate change initiatives like CO2 reduction	Reducing environmental loading throughout product life cycles	Promote reduction of environmental impact	
	Promoting waste reduction and resource recycling	Developing sustainable packaging		

Sustainability Strategy: Material Issues and Medium-to-long-term Targets (For People)

In conjunction with the 2030 non-financial targets in the Medium- to Long-term Vision, we set commitments and targets “for people” and “for the Earth” with 2030 as a medium-term milestone within the Sustainability Strategy in order to solve material issues concerning people and society, and environment.


Activity Theme	Commitment	Indicators	Target	Achieve by	Examples of Specific Measures	Relevant SDGs	
For People	Respect the diverse array of beauty	Ratio of products and services provided based on Adaptability ∞(Eight)	100%*1	2030	<ul style="list-style-type: none"> Designing products that meet diverse skin colors and textures Adopting universal design Developing beauty techniques that accommodates diversity Developing products that meet various policies 		
	Support the healthy minds and healthy lives	Pursue activities where the people of society can experience well-being through beauty	No. of initiatives for achieving well-being	500 or more activities	2030	<ul style="list-style-type: none"> Activities to raise awareness in next generation about protecting healthy skin Supporting promotion of health and community revitalization Supporting sports promotion 	
			Responsible procurement of palm oil (purchase of RSPO certification credits)	100%	2030	<ul style="list-style-type: none"> Procuring certified raw materials and using palm oil through the Book and Claim model Collaborating with suppliers on human rights aspects (procurement with no child labor, forced labor, etc.) 	
	Help with social opportunities	Raise awareness and provide opportunities to participate in society for people of all diversities	Raising awareness of and initiatives in DE&I focusing on the 3Gs*2	1 million or more people	2030	<ul style="list-style-type: none"> Promoting DE&I in the KOSÉ Group Raising awareness about gender gaps Initiatives to eliminate disparities caused by various attributes 	

*1: Based on the unique eight initiatives in KOSÉ’s Adaptability ∞ (Eight), we decide the focus items of each brand every year and calculate the overall achievement rate by counting the number of products and services that meet the targets those items.

*2: Global, Gender, and Generation

Sustainability Strategy: Material Issues and Medium-to-long-term Targets (For the Earth 1)

For the Earth

Activity Theme	Commitment	Indicators	Target	Achieve by	Examples of Specific Measures	Relevant SDGs
Increase awareness of environmental issues	Provide customers with opportunities to become aware of environmental issues through products, services, and information communicated	Increase in awareness of environmental issues through products, services and information transmissions	10 million people or more	2030	<ul style="list-style-type: none"> Activities such as SEKKISEI Save the Blue, DECORTÉ Sustainable Ingredients Project, BIOLISS Peaceful Green Communicating information through media and websites Participating in events for raising environmental awareness 	
Play a role in solving environmental issues	Pursue conservation and solving issues in various regions around the world	Area planted with coral reefs	20,000m ² About 53 times the area of a 25m Regulation size swimming pool	2030	<ul style="list-style-type: none"> Evolving SEKKISEI Save the Blue activities *Target is total area since 2009 	
		Local community environmental conservation activities	100 activities or more	2030	<ul style="list-style-type: none"> Conservation of forests, oceans, and satoyama (semi-natural areas) Environmental programs where KOSÉ operates (cleaning activities, environmental events, etc.) Resource recycling initiatives (plastic container collection, upcycling) 	

Sustainability Strategy: Material Issues and Medium-to-long-term Targets (For the Earth 2)

For the Earth

Activity Theme	Commitment	Indicators	Target	Achieve by	Examples of Specific Measures	Relevant SDGs
Promote reduction of environmental impact	Reduce CO ₂ emissions	Scope 1・2	-55% (Target for total emission reduction vs. 2018)	2030	<ul style="list-style-type: none"> Using renewable energy Introducing energy-efficient equipment, etc. Introducing hydrogen energy Fuel transition Introducing carbon pricing system Reducing CO₂ across the value chain Developing low-carbon products 	
			Carbon Neutrality	2040		
		Scope 3	-30% (Target for total emission reduction vs. 2018)	2030		
		Scope 1・2・3	Net Zero	2050		
	Sustainability-conscious design for plastic packaging materials	Use of containers and packaging materials aligned with the 4Rs	2030	100%*1	<ul style="list-style-type: none"> Using containers and packing materials aligned with the 4 Rs* * Reduce, Reuse, Recycle, Renewable Using recycled resin and biomass resin Switching from existing resin-derived materials Promoting use of refillable containers 	
		Usage rate of recycled and biomass plastic		50%*1		
		Amount of usage of petroleum-based virgin plastic		- 50%*1 (Production units vs.2018)		
Refillable container share		To be disclosed in 2025				
Waste reduction for the purpose of responsible resource utilization			100%*2	2025	<ul style="list-style-type: none"> Promoting the 3 Rs* for reducing waste *Reduce, Reuse, Recycle Effective use of bulk and unused materials Strengthening relations with recyclers 	
Reduce use of water resources through responsible practices			-12%*2 (Production units vs. 2018)	2030	<ul style="list-style-type: none"> Promoting the 3 Rs for water resources Introducing water recycling system and using recycled water 	
Responsible palm oil procurement	Procuring certified raw materials and using palm oil through the Book and Claim model		100%	2030	<ul style="list-style-type: none"> Procuring and using certified palm oil Strengthening cooperation with suppliers Establishing relationships with stakeholders of palm oil manufacturing country 	

*1: Figures for new products launched within the target achievement year

*2: KOSÉ Group Production Department



Creating Beauty in a Sustainable World