

Summary of Financial Results for the First Quarter of Fiscal Year Ending March 31, 2020 (Three Months Ended June 30, 2019)

[Japanese GAAP]

Company name: **KOSÉ Corporation** Stock listing: Tokyo Stock Exchange, First Section
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 Scheduled date of filing of Quarterly Report: August 8, 2019
 Scheduled date of dividend payment: -
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes

(Rounded down to million yen)

1. Consolidated Financial Results for the Three Months Ended June 30, 2019 (April 1, 2019 – June 30, 2019)

(1) Consolidated financial results (YoY change % represents changes from the previous fiscal year)

	Net sales	YoY change	Operating profit	YoY change	Ordinary profit	YoY change	Profit attributable to owners of parent	YoY change
	(Million yen)	(%)	(Million yen)	(%)	(Million yen)	(%)	(Million yen)	(%)
1Q FY03/2020	81,721	1.6	13,334	(24.2)	13,011	(30.4)	8,420	(37.1)
1Q FY03/2019	80,472	13.8	17,592	37.3	18,697	44.4	13,393	55.2

Note: Comprehensive income (million yen) 1Q FY03/2020: 9,146 (down 7.9%) 1Q FY03/2019: 9,936 (up 7.9%)

	Net income per share (basic)	Net income per share (diluted)
	(Yen)	(Yen)
1Q FY03/2020	147.62	-
1Q FY03/2019	234.79	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	(Million yen)	(Million yen)	(%)	(Yen)
1Q FY03/2020	299,143	228,364	70.9	3,717.30
FY03/2019	300,162	224,841	69.6	3,660.77

Ref.: Shareholders' equity (million yen) 1Q FY03/2020: 212,047 FY03/2019: 208,823

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
FY03/2019	-	85.00	-	95.00	180.00
FY03/2020	-	-	-	-	-
FY03/2020 (forecast)	-	95.00	-	95.00	190.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(YoY change % represents changes from the previous fiscal year)

	Net sales	YoY change	Operating profit	YoY change	Ordinary profit	YoY change	Profit attributable to owners of parent	YoY change	Net income per share
	(Million yen)	(%)	(Million yen)	(%)	(Million yen)	(%)	(Million yen)	(%)	(Yen)
First half	174,200	8.2	31,500	2.6	31,800	(2.5)	20,900	(5.9)	366.38
Full year	352,000	5.7	54,000	3.0	54,700	1.3	37,100	0.3	650.37

Note: Revisions to the most recently announced consolidated forecast: None

*** Notes**

(1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): None

Newly added: -

Excluded: -

(2) Application of special accounting methods for presenting consolidated quarterly financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others : None

2) Changes in accounting policies other than 1) above : None

3) Changes in accounting-based estimates : None

4) Restatements : None

(4) Number of shares outstanding (common stock)

1) Number of shares outstanding (incl. treasury shares) at end of the period

As of June 30, 2019: 60,592,541 shares

As of March 31, 2019: 60,592,541 shares

2) Number of treasury shares at end of the period

As of June 30, 2019: 3,549,024 shares

As of March 31, 2019: 3,549,024 shares

3) Average number of shares outstanding during the period

1Q FY03/2020: 57,043,517 shares

1Q FY03/2019: 57,043,675 shares

Note 1: The current financial report is not subject to quarterly review by certified public accountants or auditing firms.

Note 2: Cautionary statement with respect to forward-looking statements

These materials contain forward-looking statements and statements of this nature based on assumptions judged to be valid and information available to KOSÉ as of the announcement date of the summary. These statements are not promises by KOSÉ regarding future performance. As such, actual results may differ significantly from these projections resulting from changes in the economic environment and other risks and uncertainties. For discussion of the assumptions and other factors considered by KOSÉ in preparing the above projections, please refer to the section "1. Qualitative Information on Consolidated Quarterly Financial Performance, (2) Explanation of Consolidated Forecast and Other Forward-looking Statements" on page 3 of the attachments.

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1. Qualitative Information on Consolidated Quarterly Financial Performance

(1) Explanation of Results of Operations

Three Months Ended June 30, 2019 (April 1, 2019 – June 30, 2019)

Millions of yen, %

Operating segment	1Q FY03/2019		1Q FY03/2020		YoY change	
	Amount	% comp.	Amount	% comp.	Amount	%
Cosmetics	61,725	76.7	64,134	78.5	2,409	3.9
Cosmetaries	18,117	22.5	16,646	20.4	(1,471)	(8.1)
Other	630	0.8	940	1.1	310	49.3
Total net sales	80,472	100.0	81,721	100.0	1,249	1.6

	1Q FY03/2019		1Q FY03/2020		YoY change	
	Amount	% of sales	Amount	% of sales	Amount	%
Operating profit	17,592	21.9	13,334	16.3	(4,258)	(24.2)
Ordinary profit	18,697	23.2	13,011	15.9	(5,685)	(30.4)
Profit attributable to owners of parent	13,393	16.6	8,420	10.3	(4,972)	(37.1)

In the first quarter (April 1 to June 30, 2019) of the current fiscal year, the Japanese economy continued to recover slowly mainly because of improvements in employment, personal income and other areas. In the Japanese cosmetics industry, according to statistics for cosmetics shipments compiled by the Ministry of Economy, Trade and Industry, the sales volume and monetary sales of cosmetics increased compared with one year earlier. Overseas, in the primary markets for the KOSÉ Group, Asian economies showed signs of weakness while the U.S. economy continued to recover steadily.

The KOSÉ Group has established VISION2026 for the purpose of providing guidelines for advancing to the next stage of growth as KOSÉ looks ahead to the 80th anniversary of its founding in 2026. The objective of this vision is global and borderless growth through the greatest possible use of KOSÉ's resources and the constant creation of innovative value. A powerful business foundation capable of supporting growth will underpin all activities.

In the first quarter, net sales increased 1.6% to 81,721 million yen (up 1.8% after excluding the effects of changes in foreign exchange rates) as a result of strong sales in Asia. This was the sixth consecutive year of record-high first quarter sales. Overseas sales were 30.8% of total sales.

Earnings declined mainly because of an increase in the cost of sales ratio and higher selling, general and administrative expenses caused by expenses for aggressive marketing activities. Operating profit decreased 24.2% to 13,334 million yen and ordinary profit decreased 30.4% to 13,011 million yen. Profit attributable to owners of parent decreased 37.1% to 8,420 million yen.

In the high-prestige category of the cosmetics business, overseas sales of DECORTÉ products increased sharply, and ALBION CO., LTD. started selling a limited-time-only Medicated Skin Conditioner Essential 45th Anniversary Coffret. Sales at Tarte, Inc. were unchanged from a year earlier amid intense competition in the United States. In the prestige category, there was progress with measures to strengthen all brands. Significant activities include new products for the ESPRIQUE brand of makeup products and ONE BY KOSÉ, a line of products with outstanding efficacy for specific beauty care functions, and an increase in promotions for SEKKISEI, a line of skin care products incorporating Japanese and Chinese herbal extracts. Overall, sales in the cosmetics business increased 3.9% to 64,134 million yen and operating profit decreased 8.5% to 15,668 million yen.

In the cosmetaries business, there were activities for developing products that target customers' needs as well as many highly effective advertising and promotional activities. However, sales were down from one year

earlier because of strong sales in the prior year's first quarter due to the launch of new products. As a result, sales in the cosmetaries business decreased 8.1% to 16,646 million yen and operating loss was 1,203 million yen (compared with operating profit of 1,411 million yen one year earlier).

In the other business segment, there were increases in sales of amenity products and orders for the manufacture of OEM products. As a result, sales increased 49.3% to 940 million yen and operating profit decreased 22.2% to 275 million yen.

Net Sales by Region (Sales to Third Parties)

Millions of yen, %

	1Q FY03/2019		1Q FY03/2020		YoY change	
	Amount	% comp.	Amount	% comp.	Amount	%
Japan	59,711	74.2	56,570	69.2	(3,140)	(5.3)
Asia	10,761	13.4	14,897	18.2	4,136	38.4
North America	9,077	11.3	8,708	10.7	(369)	(4.1)
Other	922	1.1	1,545	1.9	623	67.6
Total net sales	80,472	100.0	81,721	100.0	1,249	1.6

Japan

In Japan, sales were lower in major sales channels. In the department store channel, which is used mainly for high-prestige brands, sales were weak in the skin care category and sales to foreign tourists in Japan were also lower than one year earlier. In the drug store and general merchandise store channels, sales of the ESPRIQUE makeup brand increased. However, sales in the skin care category were lower, including decreases in sales of SEKKISEI skin care products and ONE BY KOSÉ products. There was also a decrease in sales of brands in the cosmetaries category, including the primary brands of KOSÉ COSMEPORT CORP. and the Visée line of makeup products. As a result, sales decreased 5.3% to 56,570 million yen.

Asia

Activities in Asia focused on reinforcing existing sales channels throughout this region and expanding relatively new sales channels like duty-free stores and e-commerce. The objective is establishing global and borderless customer base by using activities including linkage with demand from foreign tourists in Japan. During the first quarter, sales were higher in almost every country and region where KOSÉ sells its products in Asia. The high-prestige category was a major source of growth throughout Asia due mainly to higher sales of the key global brand DECORTÉ and sales growth at ALBION CO., LTD., which sells high-end cosmetics. A big increase in duty-free sales in South Korea and the continued rapid growth of e-commerce sales in China also contributed to sales in Asia. As a result, sales increased 38.4% to 14,897 million yen.

North America

In North America, sales were affected by rapid changes taking place in the competitive landscape of the makeup market. Tarte conducted activities aimed at attracting new customer segments, including the introduction of Sugar Rush a brand for generation Z cosmetics (teenagers and early 20s). As a result, sales decreased 4.1% to 8,708 million yen.

Other

Sales were higher in this category mostly because of measures to enter new markets, primarily the start of sales of Tarte products to distributors in Europe. As a result, sales increased 67.6% to 1,545 million yen.

(2) Explanation of Consolidated Forecast and Other Forward-looking Statements

There are no revisions to the consolidated fiscal year forecast announced on April 26, 2019.

2. Consolidated Quarterly Financial Statements and Notes**(1) Consolidated Quarterly Balance Sheet***Millions of yen*

	FY03/2019 (As of Mar. 31, 2019)	1Q FY03/2020 (As of Jun. 30, 2019)
Assets		
Current assets		
Cash and deposits	94,385	91,986
Notes and accounts receivable-trade	44,773	42,106
Merchandise and finished goods	34,121	35,264
Work in process	3,005	3,666
Raw materials and supplies	23,655	27,131
Other	5,383	3,759
Allowance for doubtful accounts	(83)	(86)
Total current assets	205,241	203,828
Non-current assets		
Property, plant and equipment		
Buildings and structures	40,960	44,384
Accumulated depreciation	(21,303)	(21,651)
Buildings and structures, net	19,657	22,732
Machinery, equipment and vehicles	17,012	17,738
Accumulated depreciation	(12,299)	(12,617)
Machinery, equipment and vehicles, net	4,713	5,120
Tools, furniture and fixtures	39,199	40,470
Accumulated depreciation	(32,097)	(32,742)
Tools, furniture and fixtures, net	7,101	7,727
Land	17,566	17,565
Leased assets	1,954	1,985
Accumulated depreciation	(1,117)	(1,178)
Leased assets, net	837	807
Construction in progress	7,020	3,981
Total property, plant and equipment	56,896	57,934
Intangible assets		
Software	2,296	2,503
Goodwill	6,675	6,479
Other	6,697	6,434
Total intangible assets	15,669	15,417
Investments and other assets		
Investment securities	11,664	12,305
Deferred tax assets	7,574	6,380
Other	3,361	3,513
Allowance for doubtful accounts	(245)	(237)
Total investments and other assets	22,355	21,961
Total non-current assets	94,921	95,314
Total assets	300,162	299,143

Millions of yen

	FY03/2019 (As of Mar. 31, 2019)	1Q FY03/2020 (As of Jun. 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,764	11,670
Electronically recorded obligations-operating	19,086	20,296
Short-term loans payable	600	636
Lease obligations	228	226
Accounts payable-other	14,371	9,554
Accrued expenses	10,716	6,271
Income taxes payable	7,661	2,723
Accrued consumption taxes	632	1,557
Provision for sales returns	2,132	1,921
Other	913	6,884
Total current liabilities	66,107	61,744
Non-current liabilities		
Lease obligations	837	825
Provision for directors' retirement benefits	2,846	2,867
Net defined benefit liability	4,435	4,149
Other	1,094	1,191
Total non-current liabilities	9,213	9,034
Total liabilities	75,321	70,778
Net assets		
Shareholders' equity		
Capital stock	4,848	4,848
Retained earnings	207,821	210,822
Treasury shares	(9,102)	(9,102)
Total shareholders' equity	203,566	206,568
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,750	3,821
Foreign currency translation adjustment	1,781	2,008
Remeasurements of defined benefit plans	(275)	(350)
Total accumulated other comprehensive income	5,256	5,479
Non-controlling interests	16,018	16,316
Total net assets	224,841	228,364
Total liabilities and net assets	300,162	299,143

(2) Consolidated Quarterly Statements of Income and Comprehensive Income**Consolidated Quarterly Statement of Income**
(For the Three-month Period)*Millions of yen*

	1Q FY03/2019 (Apr. 1, 2018 – Jun. 30, 2018)	1Q FY03/2020 (Apr. 1, 2019 – Jun. 30, 2019)
Net sales	80,472	81,721
Cost of sales	19,371	20,325
Gross profit	61,101	61,396
Selling, general and administrative expenses		
Advertising expenses	4,298	5,658
Promotion expenses	13,260	14,941
Freightage and packing expenses	3,255	3,552
Salaries and allowances	12,006	12,686
Retirement benefit expenses	315	198
Legal welfare expenses	1,769	1,803
Depreciation	915	975
Other	7,686	8,246
Total selling, general and administrative expenses	43,508	48,062
Operating profit	17,592	13,334
Non-operating income		
Interest income	69	100
Dividend income	100	72
Commission income	0	35
Refunded consumption taxes	-	184
Patent licensing	19	12
Foreign exchange gains	861	-
Subsidy income	25	19
Miscellaneous income	50	77
Total non-operating income	1,127	501
Non-operating expenses		
Interest expenses	0	0
Commission fee	5	5
Loss on investments in partnership	-	15
Foreign exchange losses	-	792
Miscellaneous loss	16	9
Total non-operating expenses	22	823
Ordinary profit	18,697	13,011
Extraordinary income		
Gain on sales of non-current assets	1	1
Gain on sales of investment securities	-	0
Gain on sales of shares of subsidiaries and associates	925	-
Total extraordinary income	926	1
Extraordinary losses		
Loss on disposal of non-current assets	40	126
Loss on valuation of investment securities	6	-
Total extraordinary losses	47	126
Profit before income taxes	19,576	12,886
Income taxes-current	3,804	2,770
Income taxes-deferred	1,629	1,198
Total income taxes	5,433	3,969
Profit	14,143	8,916
Profit attributable to non-controlling interests	749	496
Profit attributable to owners of parent	13,393	8,420

Consolidated Quarterly Statement of Comprehensive Income
(For the Three-month Period)

Millions of yen

	1Q FY03/2019 (Apr. 1, 2018 – Jun. 30, 2018)	1Q FY03/2020 (Apr. 1, 2019 – Jun. 30, 2019)
Profit	14,143	8,916
Other comprehensive income		
Valuation difference on available-for-sale securities	450	68
Foreign currency translation adjustment	(4,676)	240
Remeasurements of defined benefit plans, net of tax	19	(78)
Total other comprehensive income	(4,206)	230
Comprehensive income	9,936	9,146
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	9,222	8,643
Comprehensive income attributable to non-controlling interests	714	503

(3) Notes to Consolidated Quarterly Financial Statements**Going Concern Assumption**

Not applicable.

Precaution Concerning Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information**Segment Information**

I. 1Q FY03/2019 (Apr. 1, 2018 – Jun. 30, 2018)

1. Information related to net sales and profit or loss for each reportable segment

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amounts shown on consolidated quarterly statement of income (Note 3)
	Cosmetics	Cosmetaries	Subtotal				
Net sales							
(1) Sales to third parties	61,725	18,117	79,842	630	80,472	-	80,472
(2) Intragroup sales and transfers	-	267	267	219	487	(487)	-
Total sales	61,725	18,385	80,110	849	80,960	(487)	80,472
Segment profit	17,129	1,411	18,540	354	18,895	(1,302)	17,592

Notes: 1. The "other" segment consists of activities that are not included in any of the reportable segments: amenity products and real estate leasing.

2. Adjustments to segment profit are as follows.

		Millions of yen
Eliminations for intersegment transactions		38
Corporate expenses that cannot be allocated to reportable segments		(1,340)

Corporate expenses consist primarily of expenses related to the administration division at the Company and expenses for basic research that are not assigned to any particular reportable segment.

3. Segment profit is adjusted with operating profit shown on the consolidated quarterly statement of income.

2. Information related to impairment losses on non-current assets and goodwill, etc. for each reportable segment

No significant items in 1Q FY03/2019.

3. Geographic sales information

					Millions of yen
Japan	Asia	North America	Other	Total	
59,711	10,761	9,077	922	80,472	

II. 1Q FY03/2020 (Apr. 1, 2019 – Jun. 30, 2019)

1. Information related to net sales and profit or loss for each reportable segment

Millions of yen

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amounts shown on consolidated quarterly statement of income (Note 3)
	Cosmetics	Cosmetaries	Subtotal				
Net sales							
(1) Sales to third parties	64,134	16,646	80,781	940	81,721	-	81,721
(2) Intragroup sales and transfers	-	-	-	155	155	(155)	-
Total sales	64,134	16,646	80,781	1,096	81,877	(155)	81,721
Segment profit (loss)	15,668	(1,203)	14,464	275	14,740	(1,405)	13,334

Notes: 1. The "other" segment consists of activities that are not included in any of the reportable segments: amenity products and real estate leasing.

2. Adjustments to segment profit (loss) are as follows.

Millions of yen

Eliminations for intersegment transactions	(5)
Corporate expenses that cannot be allocated to reportable segments	(1,400)

Corporate expenses consist primarily of expenses related to the administration division at the Company and expenses for basic research that are not assigned to any particular reportable segment.

3. Segment profit (loss) is adjusted with operating profit shown on the consolidated quarterly statement of income.

2. Information related to impairment losses on non-current assets and goodwill, etc. for each reportable segment

No significant items in 1Q FY03/2020.

3. Geographic sales information

Millions of yen

Japan	Asia	North America	Other	Total
56,570	14,897	8,708	1,545	81,721

Note: This is a translation of Japanese Kessan Tanshin (including attachments), a summary of financial statements prepared in accordance with accounting principles generally accepted in Japan. This translation is prepared and provided for the purpose of the reader's convenience. All readers are recommended to refer to the original version in Japanese of the report for complete information.