

# Other Overseas



# ASIA Global

Providing a comfortable lifestyle tailored to specific markets

The Mandom Group is developing its global operations, particularly in Asia. The Group segments its operations into three regions: Japan, Indonesia, and Other Overseas.

We create and invigorate markets by responding meticulously to local market conditions and such characteristics as consumer preferences, lifestyles and purchasing power.



# INDONESIA





# JAPAN

# Company

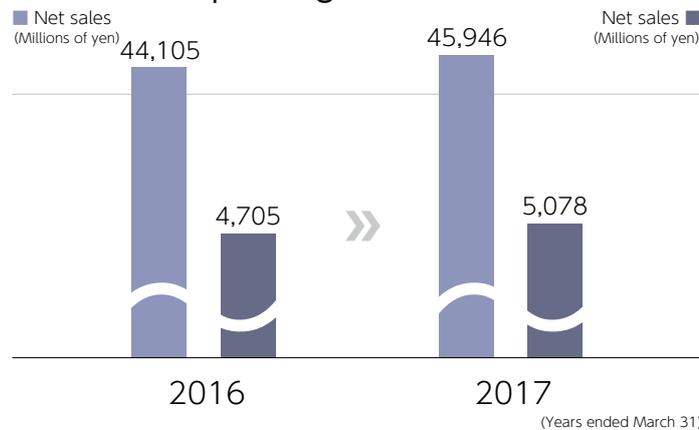




# JAPAN

Our core sales region, constituting more than 60% of the Mandom Group's sales

## Net sales / Operating income



## Net sales by business



### Economic Climate

Japan's economy showed a gradual recovery, buoyed by strong corporate profits and improvement in employment, despite concerns over uncertainty in the global economy.

### Cosmetics Market Environment

The Japanese cosmetics market grew slightly to around ¥1.5 trillion, according to the Ministry of Economy, Trade and Industry production statistics for the cosmetics industry. Although demand from overseas tourists in Japan continued to rise, growth in domestic personal consumption was sluggish, stemming from uncertainties about the future. Due to the effects of aging and a declining population, no major growth is expected in this mature market.

### Mandom's Strengths in the Market

In Japan, the Mandom Group's main channel is self-service sales, which include such distribution channels as drugstores and convenience stores. As a leading manufacturer of men's cosmetics in particular, we are always on the lookout for new market categories and seeking ways to propose new grooming techniques to create markets, and

we have a high degree of influence in this area.

In recent years, Mandom has also been stepping up measures in women's cosmetics. To build our market presence, we are leveraging existing distribution channels and working to offer high-performance, reasonably priced skin care products that are unique or use our proprietary technology, via self-service retailers. We are also offering body care products for women that capitalize on the expertise we have gained from the men's cosmetics market.

### Performance for Fiscal 2016

In fiscal 2016, sales in Japan rose 4.2% year on year, to ¥45,946 million. For Gatsby, our core brand in the men's grooming business, prolonged hot weather led to robust sales of summer seasonal products. In addition, sales of Lúcido were also favorable, as were sales of our Bifesta cleansing series and Barrier Repair Facial Masks in the women's cosmetics business, and Lúcido-L hair treatment in the women's cosmetics business.

Thanks to the impact of higher sales, operating income grew 7.9% year on year, to ¥5,078 million, despite aggressive investment in the marketing of new products.



## Men's Grooming Business

### Market Environment

The Japanese domestic market for men's cosmetics is worth approximately ¥120 billion, according to Mandom's calculations, although growth is flat.

The hair styling market, which has continued to shrink since 2001, nudged upward in fiscal 2015 but was flat in fiscal 2016. Sales in the face care products edged up, buoyed by favorable performance of skin cream, skin milk and skin lotion. The scalp care market declined, due to sluggish performance of hair tonics, a core category. The body care market remained robust, continuing to deliver the highest growth within the men's cosmetics market. Going forward, the face and body care markets are expected to grow, as consumers pay more attention to their skin.

### Initiatives in Fiscal 2016

Amid the "neo-classical" trend to produce hair with a glossy shine and strong hold, in fiscal 2016 we added Freeze Back to our Gatsby Styling Grease series to capture the trend toward hairstyles with an all-back, three-dimensional shape.

Broadening our lineup in this way helped to energize the hair styling market.

For Lúcido, our One Push Care Color series of hair dye increased in sales, thanks to the impact of demand from overseas tourists.

In shops in popular tourist areas, it is common to see customers purchase multiple items. We are continually



Gatsby Freeze Back Styling Grease

developing the Lúcido brand through communications that instill the brand message: "the brand for smart aging from the 40's onwards." At stores, we continued to steadily expand testing, concentrated on events and distributing mini samples at cash registers. On the advertising front, we ran newspaper ads declaring March 16 "Middle Day" and set up "40's Life," a lifestyle information site on our website. We also published a survey entitled *The Mid-40s Man White Paper*, on the grooming sensibilities of middle-aged men, as part of our ongoing effort to position Lúcido as a brand for middle-aged men. This brand also saw favorable developments in the Deodorant Series centering on body shampoo and the Skin Care Series, which includes emulsions.



Lúcido One Push Care Color

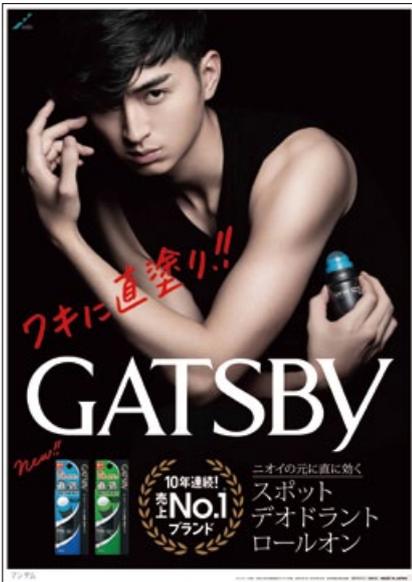


The "Middle Day" Lúcido, newspaper advertisement and the *Mid-40s Man White Paper*

# JAPAN

## Future Initiatives

For Gatsby, growing awareness of deodorant among men is prompting annual market growth. We strengthened the “direct-application deodorant” category by launching the Spot Deodorant series. In our publicity and sales promotion activities, we succeeded in gaining



Gatsby Spot Deodorant poster

market share by rolling out consistent communications that expressed product characteristics such as “apply directly to the source of odor for direct effect.”

As a new product targeting young men who are not users of existing fragrance products, we introduced the Energy Fragrance series as a product offering new value by “boosting the spirit.” This launch had the effect of invigorating the fragrance market and increasing the percentage of use.

Under the Lúcido brand, we stepped up measures to counter the distinctive middle-aged body odor, launching an additional “ice-” type body paper product that can be used for the scalp. By proposing products that can be used comfortably from summer on, we will expand the brand’s market share.



Two Lúcido Body Paper products

## Women’s Cosmetics Business

### Market Environment

In Japan, the women’s cosmetics market remains in an expansionary phase, due to a sense of economic improvement and the impact of demand from overseas tourists. However, the self-service sales market, at the center of Mandom’s growth, has been essentially flat since fiscal 2015. Amid the current frugal mindset among consumers, demand continues to grow for products that are inexpensively priced and highly functional. Accordingly, a rising level of corporate effort is needed to succeed in this increasingly tough competitive environment.

### Initiatives in Fiscal 2016

In fiscal 2016, we worked to strengthen our categories within the Bifesta brand. We extended Bifesta, a lineup consisting solely of cleansing products, by launching a facial cleansing product. Within this market, the foam type facial cleansing category is showing strong growth. To capitalize on this momentum, we introduced three products in the Foaming Facial Cleansing series, for a single push on the pump that delivers fluffy but rich, dense foam containing carbon dioxide gas. We accompanied the launch with a new brand character, and ran an aggressive marketing campaign, including television commercials.

Within cleansing products, sales of the Bifesta Cleansing Sheet expanded substantially. The product earned high marks on “buzz” marketing sites, gaining strong support not only among Japanese consumers but also overseas tourists. We also continued to see strong performance for Eye Makeup Remover.



Three Bifesta Foaming Facial Cleaning products



We expanded the number of stores carrying Barrier Repair Facial Mask in an effort to increase the number of domestic customers. This move, plus the ongoing impact of demand from overseas tourists, led to continued favorable performance.



Barrier Repair Facial Masks

In the women's body care market, moisturizing products are becoming more popular in step with growing awareness of skin care. In addition to rising demand for body milk and body gel, in recent years demand for body oil has surged. In summer seasonal products, the market is growing for direct-application and sheet-type products that have a preventive effect on underarm sweat stains.

### Future Initiatives

Within the Bifesta brand, we introduced an additional type of the popular Bifesta Cleansing Sheet and launched a balm-type product into a market that has been expanding in recent years.

We introduced Cleansing Balm Hot Type for removing makeup while being applied gradually onto skin, as slight heat softens skin and opens up pores. We will redouble our efforts in this category.

In the Barrier Repair brand, we offer the skin care series, which helps restore luster to skin that has a reduced barrier function due to internal and external factors on busy days. We introduced three products blended with rice milk: essence, skin lotion and cream. By leveraging the brand value created through favorable results with facial masks, we aim to attract customers for basic skin care.



Bifesta Cleansing Balm



Barrier Repair Three Skin Care Series products

## Women's Cosmetics Business

### Market Environment

Although the market for women's styling products has been shrinking, the market for non-bath hair treatments is growing in line with a rising emphasis in recent years on healthy, beautiful hair.

### Initiatives in Fiscal 2016

In fiscal 2016, we augmented our Lúcido-L Oil Treatment series, which has been popular since launch, with # EX Hair Oil Essence Charge, a deep-repair product. By bolstering the lineup, we enhanced the series' presence in the market.

In our Mandom body care series, we extended our lineup of products in the Dear Flora series, which is based on Mandom's unique "flower oil theory." We launched Flower Body Oil and Oil in Hand & Nail Cream, and continued to expand the number of moisturizing products, as in the previous year.



Lúcido-L EX Hair Oil Essence Charge

### Future Initiatives

We plan to substantially overhaul our Happy Deo series, which features Disney designs, and enhance summer seasonal products. We have revamped the designs on body wiping sheets, and recast the lineup by enabling selections based on the desired skin finish. These products now comprise three series, including Deodorant Roll-on with long-lasting deodorant effect, and Deodorant Mist, which is easy to apply when out and about and leaves the skin feeling fresh and sweet smelling.



Mandom Happy Deodorant Roll-on



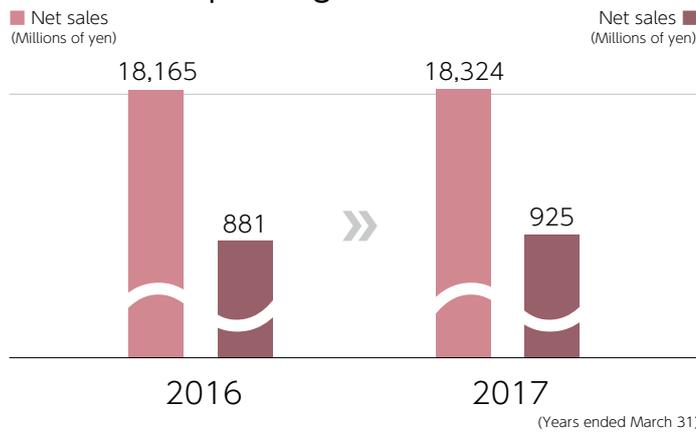
Mandom Happy Deo Deodorant Mist

© Disney

# INDONESIA

The largest business area and growth leader in the overseas group

## Net sales / Operating income



## Net sales by business



## Economic Climate

Consumption in Indonesia has shown temporary signs of decelerating over the past few years, but recently, modest economic growth has continued. Income levels are rising steadily, leading to a substantial increase in the middle-income bracket. Given also that Indonesia is the world's fourth most populous country and the percentage of working-age people is rising, we see Indonesia as a promising market with growing internal demand.

## Cosmetics Market Environment

In Indonesia's cosmetics market, consumers' purchasing behavior is changing as higher income levels expand the middle class. For products where consumer preferences are shifting from staple items to those that are more luxury-oriented, we expect the market to grow further, supported by greater demand for highly functional, high-value-added products.

In distribution, consumers' purchasing channels have shifted from traditional trade, such as privately run shops, to modern trade such as chain stores and other organized retailers. This has led to a fierce rivalry between major global companies with large advertising budgets that run

sales promotions and local firms competing with standard products.

## Mandom's Strengths in the Market

In an age when the concept of men's cosmetics had yet to be established in consumers' minds,



A modern trade store in Indonesia



we developed products that reflected the desires of local consumers and expanded the business while opening up and cultivating the men's cosmetics market by ourselves. We have built a broad distribution network that now supplies products everywhere to the more than 13,000 islands in the Indonesian archipelago, working in cooperation with local distributors. Mandom has a share of more than 80% in the men's hair styling market and is recognized as the country's unshakeable leader in men's cosmetics.

The Company also has strong brand recognition in Indonesia and has captured a large share of the women's cosmetics market. We have been actively selling women's cosmetics in this market since the 1980s, particularly makeup and fragrances. Our sales in Indonesia are now roughly evenly split between men's and women's products.

## Performance for Fiscal 2016

In fiscal 2016, sales in Indonesia increased 0.9% year on year, to ¥18,324 million, despite the negative impact of yen exchange rates, thanks largely to favorable performance in men's cosmetics—notably from our core Gatsby brand. Owing to post-fire recovery and a reduced cost-of-sales ratio, operating income rose 5.1%, to ¥925 million.

## Men's Grooming Business

### Market Environment

Rising income levels plus growing consumer confidence and increasing fashion awareness continue to shore up performance in the men's cosmetics market. The hair styling market has grown steadily every year, and the face care and



Outdoor ad for Gatsby Styling Pomade

# INDONESIA



body care markets are also expected to enjoy sharp growth. This has created fierce competition among global companies.

## Initiatives in Fiscal 2016

Fiscal 2016 was characterized by a pomade boom in the hair styling category. We added the new Supreme Hold to our Gatsby Styling Pomade, which proved popular in the previous year, and mini-sized versions of each product. Sales of these products have risen substantially and they have become core products in the brand.

Gatsby Styling Wax also continued to perform favorably, and results in the styling category grew steadily.

In the body care category, Gatsby Urban Cologne continues to experience favorable sales.

## Future Initiatives

We continued to make aggressive marketing investments in the hair styling category centered on television commercials for Gatsby Styling Pomade, which is performing solidly.

In the body care category, to sustain the positive performance of Gatsby Urban Cologne we ran a television commercial in January, and we plan to enhance our efforts in this area.

## Women's Cosmetics Business

### Market Environment

Women's awareness of cosmetics is growing in tandem with rising income levels. Western cosmetics brands are increasing their sales through modern trade outlets, while rising Halal-certified brands are also selling well. Halal certification is important in Indonesia, where the population is predominantly Muslim. The number of products on the market is likely to grow as consumer needs become increasingly diverse, and we expect competition to intensify as new companies enter the market.

### Initiatives in Fiscal 2016

In fiscal 2016, sales of Pixy struggled, due to competition from rival brands and as the brand lost its sense of "freshness." In response, we launched new products calculated to appeal to the youth market. In the base makeup category, we augmented our flagship Pixy Two Way Cake with Pixy Two Way Cake Cover Smooth. The product comes in a new, easy-to-use case, in line with our goal of attracting new customers through a new image. In the decorative category, which has strong ties to fashion, we launched



the new Lip Cream. Featuring highly fashionable designs and trendy colors that attract young customers, the product began delivering results soon after its introduction. We also invested in television commercials, with the aim of building a new Pixy brand image that will lift performance.

### Future Initiatives

We plan to reinvigorate the Pixy brand through stronger marketing, including TV commercials centered on Lip Cream, promotions and events. These efforts are intended to rejuvenate the brand's image and more firmly establish Pixy's position as a total cosmetics brand.

## Women's Cosmetics Business

### Market Environment

Reflecting Indonesia's strong preference for scents, fragrances are a favorite way to attract a broad consumer segment, especially teenagers. Fragrances are often consumers' first personal fashion item. Because teenagers are highly sensitive to market trends, new products are constantly being brought to market, and although the market is expected to continue growing, competition is intensifying.



Pixy Lip Cream

### Initiatives in Fiscal 2016

In fiscal 2016, we boldly expanded the roll out of Pink Me, a new series under the Pucelle brand, whose target customers are those with a changing preference for light fragrances. We worked vigorously to support store sales, and Pink Me is currently performing well.

### Future Initiatives

For the Pucelle brand, we aim to redouble our efforts for Mist Cologne, a mainstay product. We are planning to support store sales through a sales promotion campaign. We also intend to add more new products from autumn under the Pucelle brand and strengthen store sales support, thereby improving our competitiveness.



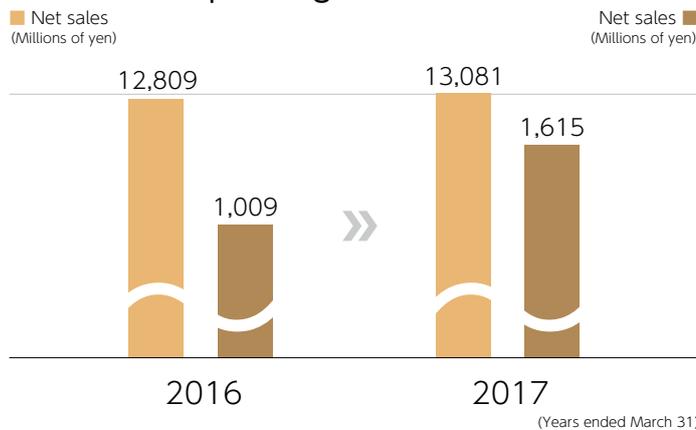
Pucelle lineup



# Other Overseas

An area with high growth potential for our overseas business

## Net sales / Operating income



## Net sales by business



### Economic Climate

Cosmetics markets are growing in tandem with economic growth in this area. Despite this general growth, the newly industrializing economies (NIES) with comparatively high GDP levels—Singapore, Hong Kong, Taiwan, and South Korea—have matured as markets, and many Japanese and international cosmetics brands are already available; the environment is highly competitive.

Conversely, the cosmetics market is growing rapidly in Thailand and other countries in Indochina, and in ASEAN countries such as Malaysia and the Philippines, particularly in metropolitan areas. Aggressive government investment in infrastructure and growing domestic consumption are sustaining economic growth. Significant market expansion is expected, with growth spreading outward from metropolises to outlying regions. This will be driven by a potential expansion in consumption as populations in these countries approach a growth phase and awareness of cosmetics increases as income levels rise.

### Performance for Fiscal 2016

In fiscal 2016, although being affected by downward pressure due to the appreciation of the yen, the Other Overseas segment benefited from

favorable performance by the women's cosmetics brand Bifesta. Segment sales consequently rose 2.1% year on year, to ¥13,081 million.

Operating income surged 60.0%, to ¥1,615 million, owing to lower marketing expenditures.

### China

In recent years, China's economy has continued to grow steadily, though at a slower rate than before. At the beginning of 2016, the economy showed signs of decelerating, but an expansion in infrastructure investment and the introduction of a tax rebate on compact cars helped drive growth back in a positive direction, and personal consumption continued its robust growth.

The cosmetics market is expanding every year, thanks to the growth of incomes and heightened fashion awareness among women. Although the market has strong potential, competition has intensified following the entry of global brands from Europe, the United States and South Korea, as well as Japan.

In fiscal 2016, in the men's grooming business we focused on strengthening sprays and waxes in the hair styling category for our core Gatsby brand. Though hair spray remains the mainstream product, in recent years demand has risen among young



men—particularly university students—for more elaborate hair styles, so demand for hair wax is expected to grow. Mandom has been holding styling courses and other events on university campuses to raise awareness of hair wax and to create a market.

Another area experiencing rapid growth is Bifesta, in our women’s cosmetics line. Since launching this brand, we have focused consistently on sales promotions at stores. The resulting jump in popularity, as word spread from stores and on social networking sites, created a tailwind that contributed to robust sales. In China, our eye makeup remover is highly popular and contributing substantially to sales. We expect sales to grow further in the fiscal 2017, ending March 31, 2018 as more stores begin offering this product. Leading with e-commerce initiatives in China, we have developed a flagship site focusing on the Gatsby and Bifesta brands. Our e-commerce efforts should also contribute to performance increases.



A styling course held on a university campus in China

### Mainland Southeast Asia

GDP levels still remain relatively low in mainland Southeast Asia. However, as a large percentage of the population in the region is under 30 and the working-age population is rising, the region is expected to enjoy significant growth in the future, making it a promising market. The organized retailers that make up modern trade channels remain a relatively small feature of the cosmetics market in this region. Instead, traditional

trade channels such as individually operated mom-and-pop stores are the norm. With the middle-income population expanding and fashion awareness rising, we expect distribution routes to increase significantly as the cosmetics market grows.

In fiscal 2016, in the women’s cosmetics business Bifesta had a strong showing in Thailand. As cleansing products began to gain traction in the market, we proposed water cleansing, a move that enabled us to secure a foothold ahead of our competitors. In Vietnam, we established Mandom Vietnam Company Limited in January 2015, and the company began full-fledged sales activities in November of that year. We are currently creating a distribution network concentrating on Gatsby hair styling products. We are strengthening our market presence through television commercials and outdoor advertising such as an advertising-wrapped bus, an unusual sight in the Vietnamese market.

Mandom Corporation (Thailand) Ltd. supervises overseas operations in Myanmar, Cambodia, Laos and Thailand. This subsidiary has been boosting the number of stores offering our products, particularly our Gatsby brand, and coordinating local marketing activities to capture market share.

In Cambodia, we are currently developing business in the face care, body care and hair styling categories. Our efforts include ongoing communications featuring our brand ambassador, the popular local vocalist Nico, and include television and SNS advertisements, as well as *GATSBY Magazine* —a marketing tool unique to Cambodia.

Our business partners use *GATSBY Magazine* as a product catalog. We also distribute the magazine for free to consumers at hair salons and sports clubs. *GATSBY Magazine* is proving to be a valuable communication tool; customers can use it as a hair catalog when getting their hair cut and it raises awareness and provides education on grooming habits for target customers, as well.



*GATSBY Magazine*, featuring brand ambassador Nico