



Striving to Become a Valuable Company

Motonobu Nishimura
Representative Director
President Executive Officer

We aim to become a company of value to consumers through the products we provide across diverse countries and regions.

By accelerating its growth in Asia and actively cultivating new markets, the Mandom Group aims to become an “Only One” company in Asia with global management expertise.



President's Message

Becoming an Asian Global Leader and a Company of Value to Consumers

As our stakeholders read this report, I will likely be in Jakarta, Indonesia, conducting a hearing among staff at a supermarket customer about market trends related to our new Gatsby facial cleanser. Or I may be in Phnom Penh, Cambodia, talking with young people in the street about branding strategies involving the popular vocalist Nico. It is equally possible that I will be in Ho Chi Minh City, Vietnam, at a power lunch to exchange views with the management team at Mandom Vietnam Company Limited, which we established this January.

As I am sure you are aware, Mandom entered the Indonesian market in the late 1960s, when we had no idea the Company would enjoy its current rate of growth. This was in an era before Japan's leading automakers and electronics companies had made their entries into this region. Almost half a century since then, we have succeeded in introducing our products and winning their acceptance in Asian countries with lifestyles and cultures entirely different from Japan's. In Indonesia, Gatsby brand recognition is 100%, and the country generates ¥17,172 million in annual sales. I expect our share of sales in other Asian countries to significantly outpace those in Japan, in terms of both growth rate and demographic comparison.

There is no doubt that we owe these successes to the support of our stakeholders and the dedication of our staff in a number of countries. Entrusted with this support, I will continue working to meet your expectations by visiting the front line of growth and focusing on the tastes, cultures and movements of the young people who are our core target. As a manager, I view Asia from a global perspective. At the same time, I try to take the view of an individual employee when making a detailed survey of regional market needs and wants. Combining these global and detailed regional perspectives, Mandom will continue aiming to provide a comfortable lifestyle supported by health and beauty both in Japan, which faces a falling birthrate and an aging population, and in the challenging Asian market. In these endeavors, I ask for your ongoing support.

Record Levels for Net Sales and All Income Categories: Looking Back on the First Year of MP-11



Fiscal 2014, ended March 31, 2015, was the first year of our MP-11 Middle-Range Planning, which positions Mandom to accelerate growth and promote the development of new businesses in Asia. This plan targets higher profitability and a stable, high level of return to shareholders. The plan also calls for us to develop and strengthen our core businesses, establish a competitive advantage, and expand sales by cultivating new markets and fields of business. In the plan's final year, fiscal 2016, ending March 2017, we are aiming for an operating income margin of 10% or more.

Looking back on priority measures during the initial year of MP-11, in the area of sustained growth in the core men's grooming business, we boosted our domestic market share in the hair styling category with our mainstay Gatsby brand and achieved growth overseas. However, sales of seasonal summer products in Japan were lackluster, affected by inclement weather and an increasingly severe competitive environment. Conversely, we stepped up our rollout of Lúcido body odor care and other aging care products, which performed favorably. Ultimately, overall sales were up in the men's grooming business, albeit slightly.

In the area of greater speed in development of the women's cosmetics business, we invested aggressively in marketing and bolstering sales in the domestic skin care category. Overseas, as well, we worked to expand our business through global marketing in Asia, with a horizontal rollout of products in Japan and Indonesia—an approach that led to higher sales.

In the continued strengthening of overseas business—the Company's growth engine, overall sales grew strongly, particularly in Indonesia, although growth was sluggish in some overseas regions. Due in part to the lift given by yen depreciation to exchange rate conversions on overseas business, in fiscal 2014 consolidated net sales grew ¥2,709 million, or 4.0% year on year, to ¥70,925 million. This amounted to our highest-ever net sales figure for the fifth consecutive fiscal year.

On the profit front, our domestic cost-of-sales ratio increased as we invested proactively in marketing (advertising expenses) overseas, notably in Indonesia. Meanwhile, we worked to boost the efficiency of our domestic marketing costs (sales promotion and advertising expenses). As a result, we posted record highs in all income categories on a consolidated basis: operating income rose ¥142 million, or 2.1%, to ¥6,996 million; ordinary income grew ¥265 million, or 3.6%, to ¥7,595 million; and net income expanded ¥333 million, or 8.1%, to ¥4,425 million.

Consolidated Operating Results for Fiscal 2014

Net sales	Operating income	Ordinary income	Net income
¥70,925 million Up 4.0% YoY	¥6,996 million Up 2.1% YoY	¥7,595 million Up 3.6% YoY	¥4,425 million Up 8.1% YoY

Overview of MP-11 ▶ Middle-Range Planning to Accelerate Growth in Asia and Promote the Development of New Businesses

(Final Year: Fiscal 2016)

Growth Potential

We aim to further bolster business in major markets to bring a competitive advantage, and open new markets and business areas to expand sales.

Target: Consolidated Net Sales

Final year of MP-11:

¥83 billion

We continue to address topics covered in MP-10, aiming for even higher growth.

Sustained Growth in the Men's Grooming Business
We aim for sustained growth as our core business area while maintaining or expanding category share in the men's cosmetics market.

Men's Grooming Business
Average growth rate target: **5.2% or higher**

Greater Speed in Development of the Women's Cosmetics Business
We aim to achieve greater speed in developing business in Asia, primarily in skincare and base make-up categories, with product lines tailored to each country.

Women's Cosmetics Business
Average growth rate target: **15.0% or higher**

Continued Strengthening of Overseas Business: The Company's Growth Engine
We aim to expand sales by doubling efforts in the main market of Indonesia, and build a foundation in emerging markets such as China and mainland southeast Asia by building distribution networks and other initiatives.

Overseas Business
Average growth rate target: **11.4% or higher**

Profitability

We aim to improve profitability as well as perform marketing investment for growth.

Target: Consolidated Operating Income

Final Year of MP-11:

¥8.6 billion

Shareholder Returns

We aim to maintain high and stable levels of shareholder returns.

Target: Consolidated Payout Ratio

Consolidated basis, excluding extraordinary items:

40% or higher

Creating New Markets to Meet the Trend toward More Budget-Conscious Consumers

Increasingly, the Japanese market is characterized by budget-minded consumption of everyday items and consumer staples, leading to expansion of lower-priced, mass-market items. Statistically, sales volumes are rising for such women's cosmetics as cleansing products and skin lotions priced at ¥1,000 or less. Competition is growing increasingly intense, as manufacturers each vie to offer inexpensively priced, high-quality products. Furthermore, with the Japanese population clearly shrinking due to a falling birthrate and aging population, we believe that quality across all aspects of our business will remain important.

In Japan, we are also focusing on the middle-aged/senior market. Although this market is judged to have high potential, there is still a lack of aging-care products in the true sense. Furthermore, sales floors for senior products do not have a particularly positive image; they tend to be far removed from a sense of fashion. However, recent years have seen the development of a fashion market for the "slightly wild" older gentleman. We should see a rise in demand for products that address the problems this segment experiences as it ages. Mandom enjoys a large share of the personal grooming market among the young segment, but given the market characteristics that will result from Japan's current demographic trends, we clearly need to step up our efforts in the middle-aged/senior market. To continue growing in mature markets such as Japan, I believe we need to focus on boosting our market share in areas where it is currently nonexistent or low. Our company has a long history of conducting basic research on the changes that occur as men age. One recent research success was the discovery in autumn of 2013 that diacetyl was the physical source of a third distinctive odor given off by the bodies of older men, following the smell of sweat and body odor. Now that we understand the source of this so-called third smell, we can create and sell a series of products to counter it. In an era when simply doing nothing represents a major risk, I believe that taking on the challenge of creating a new market to combat the body odors that develop in the middle years shows that Mandom's venture spirit is still alive and well.

The Mandom Group Pulls Together to Keep Pace with Growth in Asia

Fiscal 2015, ending March 2016, will be the second year for MP-11. During this year, we will accelerate our growth engine to reach the goals set out in this plan. In particular, we will step up growth with ongoing and aggressive investment in marketing to target the center of this growth—our overseas business.

The Asian market is currently changing at breathtaking speed, so we need to come up with new concepts and ideas that take us beyond past levels of growth. The Mandom Group will harness its resources to meet the needs of consumers in each country, aiming to be an “Only One” company in Asia with global management expertise.

The ASEAN market is an area of particular focus for us. This is because, viewed through a macroeconomic lens, per capita GDP in this area is rising dramatically, and the middle-income consumer category is expanding.

Looking at each country in Southeast Asia, we are developing detailed proposals to roll out certain products globally throughout Asia, some on a regional basis and in other areas targeting customers in the middle-income segment. For example, our strategy concentrates on Gatsby and Bifesta in Thailand, Gatsby and Pixy in Myanmar, and Gatsby in Cambodia. In addition, it is difficult to speak of just one middle-income segment, because differing backgrounds in each country cause buying behavior to differ dramatically. Moreover, we cannot understand such differences and respond swiftly by simply remaining in Japan. For example, at one hearing at a drugstore in downtown Bangkok we were told, “Please introduce Japanese products.” This reflects a rise in affluent customers, and products sell there just as in Japan. However, in Chiang Mai and other regional cities, sales tend to center on more inexpensively priced items produced in Indonesia. One of Mandom’s strengths lies in the fact that it has spent nearly half a century conducting market research so that it can respond flexibly to these different market needs and wants. We will apply the resources of our more than 5,000 local personnel and our distribution network that handles overseas sales of more than ¥29,200 million—as well as our expertise on the purchasing behavior of the rapidly growing middle class with its population of more than 100 million—to continue growing in the massive Asian market.

By 2020, we plan to expand our scope to encompass all of Asia, creating demand in this region in a number of ways. By “all of Asia,” I am referring to a market of some four billion people that includes Turkey and the Near and Middle East. The scale of this market is huge, but we believe this region should be receptive to our products, given that many of the people throughout this region have the same dark hair and eye color as Japanese people, together with similar facial features. We do not rule out developments in other markets, such as Europe, the Americas and Africa, but we plan to continue concentrating our management resources on Asia, which is one of our strengths.



Outlook for the Upcoming Year: Aiming for a Sixth Consecutive Year of Record Sales

For fiscal 2015, we foresee a number of risk factors that could affect overseas economies, but employment and income levels continue to improve in Japan, and we expect the economy to continue benefiting from lower crude oil prices and a number of government measures. Accordingly, we anticipate a modest economic recovery. We also expect the Asian economy to continue expanding modestly, despite the risk of volatility in financial markets. At the same time, while we expect



the Asian cosmetics segment to remain on an expansionary trend, competition is likely to grow more intense.

In these circumstances, the Mandom Group will target sustainable growth of its Group businesses, with all Group companies in Japan and overseas working together on growth-oriented initiatives.

We will continue our efforts to increase sales by maintaining three ongoing pillars of activity: sustained growth in the men's grooming business, stepping up efforts in the women's cosmetics business, and expanding overseas operations as the engine of growth.

In terms of profits, we expect our cost-of-sales ratio to rise due to aggressive investments in marketing at overseas locations and in women's products. However, we intend to boost income at all levels through ongoing efforts to hold down the cost of sales and by achieving greater efficiencies in selling, general and administrative expenses. Furthermore, we expect to generate a gain on sales of property, plant and equipment due to the transfer of certain fixed assets to a consolidated subsidiary. As a result, we expect net income attributable to owners of the parent company to increase by around ¥2,500 million.

The principal exchange rate assumptions used in our forecasts are ¥118/US\$1.00, 12,800 rupiah/US\$1.00 and ¥0.0092/1.00 rupiah.

As a result, our consolidated forecasts for fiscal 2015 are net sales of ¥76,360 million, up 7.7% year on year; operating income of ¥7,360 million, up 5.2%; ordinary income of ¥7,600 million, up 0.1%; net income of ¥7,120 million, up 60.9%; earnings per share (EPS) of ¥304.55; and return on equity (ROE) of 12.7%.

In line with these projections, we expect to pay an annual dividend per share of ¥80, including an interim dividend of ¥40.

Consolidated Forecast for Fiscal 2015

Net sales	Operating income	Ordinary income	Net income
¥76,360 million Up 7.7% YoY	¥7,360 million Up 5.2% YoY	¥7,600 million Up 0.1% YoY	¥7,120 million Up 60.9% YoY

Mandom's Future, as I See It

To become an "Only One" company in Asia with global management expertise in the true sense, we must do more than simply globalize our management. Through our businesses, we also need to cultivate personnel who can interact seamlessly with people of other countries. To truly understand diversity, I think we need to embrace all things beginning with "other"—other cultures, other abilities, and other views—to become a global company comprising people with a wealth of individual characteristics. In fact, I am convinced that we have many young employees who are very capable. The majority of our executive officers have overseas experience, as well, and I look forward to their efforts to welcome in a new era.

I ask for the ongoing support and encouragement of all our stakeholders.

August 2015

Motonobu Nishimura

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